# NOTES TO THE FINANCIAL STATEMENTS

## NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of the State of Colorado have been prepared in conformance with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosed amount of contingent liabilities at the date of the financial statements, and the reported amounts of revenues, expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### A. REPORTING ENTITY

For financial reporting purposes, the State of Colorado's primary government includes all funds and account groups of the state, its departments, agencies, and state funded institutions of higher education that make up the state's legal entity. The state's reporting entity also includes those component units, which are legally separate entities, for which the state's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14, "The Financial Reporting Entity." The state is financially accountable for those entities for which the state appoints a voting majority of its governing board, and either is able to impose its will upon the entity or there exists a financial benefit or burden upon the state. For those entities that the state does not appoint a voting majority of the governing board, GASB Statement No. 14 includes them in the reporting entity if there is a fiscal dependency. Entities that do not meet the criteria for inclusion may still be included if it would be misleading to exclude them.

Discretely presented in the combined financial statements for the state are the following entities:

Denver Metropolitan Major League Baseball Stadium District
University of Colorado Hospital Authority
Colorado Water Resources and Power Development Authority
Colorado Uninsurable Health Insurance Plan

With the exception of the University of Colorado Hospital Authority, each governing board member for these entities is appointed by the Governor and confirmed by the Senate. The board of the University of Colorado Hospital Authority is appointed by the Board of Regents of the University of Colorado.

The University of Colorado Hospital Authority and the Colorado Uninsurable Health Insurance Plan are included because they present a financial burden upon the state. The Baseball Stadium District is included because its board serves at the pleasure of the Governor, and therefore, the state is able to impose its will upon the District. The Water Resources and Power Development Authority is also included because the state is able to impose its will upon the authority.

Detailed financial information may be obtained directly from these organizations. The Colorado State Fair Authority was abolished by statute June 30, 1997 and recreated with the same name as an agency in the Department of Agriculture. This was necessitated by the Authority's cash flow problems and subsequent need for a state appropriation. Audited statements for the State Fair Authority from the period January 1, 1996 to June 30, 1997 are unavailable, and therefore, no financial data is shown in this report for this period during which the State Fair Authority was a component unit of the state.

The following related organizations, for which the state appoints a voting majority of their governing boards, are not part of the reporting entity based on the criteria of GASB Statement No. 14:

Colorado Compensation Insurance Authority
Colorado Post-Secondary Educational Facilities Authority
Colorado Student Obligation Bond Authority
Colorado Health Facilities Authority
Agricultural Development Authority
Colorado Housing and Finance Authority
Colorado Sheep and Wool Authority
Colorado Beef Council Authority
Colorado Travel and Tourism Authority
Fire and Police Pension Association
The State Board of the Great Outdoors Colorado Trust Fund
Various College and University Foundations

Even though the appointment of governing boards of these authorities is similar to those included in the reporting entity, the state does not impose its will, nor does it have a financial benefit or burden relationship with these entities. Detailed financial information may be obtained directly from these organizations.

The state has entered into a joint operating agreement with the Huerfano County Hospital District to provide patient care at the Colorado State Veterans Nursing Home at Walsenburg. The facility is owned by the state but is operated by the hospital district under a twenty year contract that is renewable at the district's option for successive ten year terms up to 99 years from the original commencement date in November 1993.

The state's contract with the district states that the district is responsible for funding the operating deficits of the nursing home; however, since the state owns the nursing home, it retains ultimate financial responsibility for the home. Only the state's share of assets, liabilities, revenues and expenses associated with the joint operation are shown in these financial statements. These include the land, building, and some of the equipment for the nursing home as well as revenues and expenses associated with the state's on-site contract administrator. The pass-through by the state of U.S. Veterans Administration's funds to the district is also shown as revenue and expense of the state.

## B. FUND STRUCTURE

**Primary Government**

The financial activities of the state are organized on the basis of individual funds and account groups. Each fund is a separate accounting entity, in which the operations are recorded in discrete sets of self-balancing accounts that comprise the assets, liabilities, fund equity, revenues and expenditures, or expenses, of that entity. For financial statement presentation, similar funds have been combined into fund types and categories.

GOVERNMENTAL FUNDS

General Fund

Transactions related to resources obtained and used for those services traditionally provided by state government, which are not accounted for in other funds, are accounted for in the General Fund. Resources obtained from federal grants which support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Special Revenue Funds

Transactions related to resources obtained from specific sources, and restricted to specific purposes are accounted for in the special revenue funds. The individual funds include the Highway Fund, the Wildlife Fund, the Labor Fund, the Gaming Fund, and the Water Projects Construction Fund.

Debt Service Fund

This fund accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest. The primary debt serviced by this fund consists of certain long-term lease purchase agreements.

Capital Projects Funds

Transactions related to resources obtained and used for acquisition, construction, or improvement of state owned facilities are accounted for in the capital projects funds.

PROPRIETARY FUNDS

Enterprise Funds

These funds account for operations that are financed and operated in a manner much like private business enterprises. Costs of providing goods and services to the general public, including depreciation, are recovered primarily through user charges.

Internal Service Funds

These funds account for the operations that provide goods or services on a cost-reimbursement basis to state agencies.

FIDUCIARY FUND TYPES

Trust and Agency Funds

These funds account for assets held by the state in a trustee capacity or as an agent for other organizations or individuals. They include agency funds, expendable and nonexpendable trust funds.

Agency funds are used to account for assets held for other funds, governments, or individuals. They are custodial in nature and do not involve the measurement of operations.

The expendable trust fund classification is used when both the principal and revenue earned may be expended for purposes designated by the trust agreement.

Nonexpendable trust funds require that the principal of the fund remains intact while only the earnings of the fund are expendable.

ACCOUNT GROUPS

General Fixed Assets Account Group

Land, buildings, equipment and other capital assets, of the governmental fund types are accounted for in this group. Capital assets of the proprietary, trust, and the college and university funds are recorded in their respective funds and may be depreciated there. Infrastructure is not recorded in the state's accounting system.

General Long-term Debt Account Group

This group accounts for long-term liabilities of the governmental type funds, such as general liability, lease purchase obligations, employee leave obligations, and employee workers' compensation claims. It also accounts for short-term risk management liabilities for which expendable financial resources are not available. Long-term obligations of the proprietary funds, trust funds, and the college and universities are accounted for in their respective funds.

COLLEGE AND UNIVERSITY FUNDS

These funds account for the operations of the state supported system of higher education. The College and University Funds consist of the following funds:

Current Funds Unrestricted account for economic resources which are expendable for any purpose in accomplishing the institutions' primary objectives.

Current Funds Restricted account for resources received from donors or other outside agencies, primarily the federal government, that are restricted for specific purposes.

Loan Funds account for resources available for student loans.

Endowment Funds account for resources contributed by donors. While the principal portion of the contribution must remain intact, earnings may be added to the principal or expended for restricted or unrestricted purposes.

Plant Funds account for resources available, acquisition costs, debt service requirements, and liabilities related to acquiring or repairing institutional properties.

Agency Funds account for resources held by the institution acting in the capacity as agent for distribution to designated beneficiaries.

**Component Units**

The Denver Metropolitan Major League Baseball Stadium District uses proprietary fund accounting in preparation of its financial statements. The Colorado Uninsurable Health Insurance Plan uses practices prescribed or permitted by the state's Division of Insurance. The financial information for both entities is presented as of December 31, 1996.

The Colorado Water Resources and Power Development Authority uses proprietary fund accounting for all its funds with the exception of governmental fund accounting for its expendable trust fund and its agency fund. The Authority's financial information is presented as of December 31, 1996.

The University of Colorado Hospital Authority uses proprietary fund accounting. Financial information for the authority is presented as of June 30, 1997.

## C. BASIS OF ACCOUNTING

**Primary Government**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. Nonexpendable trust funds and proprietary funds are accounted for on a flow of economic resources measurement focus.

Governmental fund types, expendable trust funds, and agency funds are reported on the modified accrual basis. This basis of accounting recognizes revenues when they are measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end.

Historical data, adjusted for economic trends, is used in the estimation of the following accruals:

- Sales, use, liquor, and cigarette taxes are accrued based on filings received and an estimate of filings due by June 30th.
- Net income taxes from individuals, corporations, and trusts are accrued based on current income earned by the taxpayer prior to June 30th. Quarterly filings, withholding statements, and other historical data are used to estimate the taxpayer's current income. The revenue is accrued net of an allowance for uncollectable taxes.

Revenues earned under the terms of agreements with other governments or private sources are recorded at the time that the related expenditures are made.

Expenditures are recognized during the period in which the fund liability is incurred, except for accumulated employee leave time, principal and interest on long-term debt, which is recorded when due, risk management liabilities in excess of the available current financial resources appropriated for that purpose, and inventories which are generally considered expenditures when consumed.

Special reporting treatment at year-end is accorded to encumbrances. In the General Fund, a reserve for encumbrances is recorded at year-end for the appropriation that will be rolled-forward to cover encumbrances. In the Capital Projects Fund and the Highway Fund, a reserve for encumbrances is established for the contracted legal obligations of the funds.

Proprietary fund types and nonexpendable trust funds are reported on an accrual basis. Using this basis, revenues are recognized when earned, and expenses, including depreciation, are recognized when incurred.

College and university funds are reported on the accrual basis, except for depreciation related to plant fund assets which is generally not recorded, and revenues and expenditures related to summer school programs which are recorded primarily in the subsequent fiscal year in accordance with the National Association of College and University Business Officer's College and University Business Administration.

The state has determined that proprietary and non-expendable trust funds will apply all applicable GASB pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 10, 1989: FASB Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with, or contradict, GASB pronouncements.

**Component Units**

The Colorado Uninsurable Health Insurance Plan's statements are presented in conformance with accounting practices prescribed or permitted by the Colorado Division of Insurance. These practices vary in some respects from generally accepted accounting principles (GAAP). The most significant of these variances resulting from prescribed practices is that certain assets designated as nonadmitted assets have been excluded from the balance sheet. In addition, no provision is made for premium deficiencies. The only variance resulting from a permitted practice is that restricted cash held by the state treasurer and not yet appropriated by the General Assembly is included as an admitted asset.

The University of Colorado Hospital Authority has elected to adopt the provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide for Health Care Organizations, which are required for financial statements for periods beginning on or after June 15, 1996. In conjunction with such provisions, the hospital has qualified as a governmental entity. In applying governmental GAAP, the hospital has elected to apply the provisions of all relevant pronouncements of FASB, including those issued after November 30, 1989.

## D. ELIMINATIONS

Substantially all intrafund transactions and balances of the primary government have been eliminated. Substantially all interfund transactions are classified as operating transfers-in or operating transfers-out after the revenues and expenditures/expenses are reported on each of the operating statements.

## E. INSURANCE

The state has agreements with the Colorado Compensation Insurance Authority (CCIA), a related party, to administer a Paid Loss/Retro Plan for workers' compensation insurance claims through June 30, 1996. For claims arising after that date, the state is self-insured for workers' compensation. The state reimburses CCIA for the current cost of claims paid and related administrative expenses. Actuarially determined liabilities are accrued for claims to be paid in future years.

The state insures its property through private carriers and is self-insured for general liability for both its officials and employees.

## F. TOTAL COLUMN ON COMBINED STATEMENTS

The total columns on the combined statements for the primary government are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Nor are they comparable to a consolidation as interfund eliminations have not been made in the aggregation of this data.

## G. CASH AND CASH EQUIVALENTS

### Primary Government

The state maintains numerous cash accounts for administrative purposes. The cash reflected on the balance sheet is the composite amount of all accounts, although some of the individual accounts may be periodically overdrawn. Where a fund category has a deficit cash position, that deficit has been reclassified to an interfund payable to the General Fund.

For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, and cash with the state treasurer.

### Component Units

The University of Colorado Hospital Authority and the Colorado Uninsurable Health Insurance Plan considers highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Denver Metropolitan Major League Baseball Stadium District, and the Colorado Water Resources and Power Development Authority consider investments with a maturity of three months or less when purchased to be cash equivalents.

## H. INVENTORY

Inventories of the various state agencies primarily comprise federal food stamps, finished goods inventories held for resale by Correctional Industries, and consumable items such as office and institutional supplies, fuel, and maintenance items.

Inventories of the governmental funds are stated at cost, while inventories of the proprietary funds are stated at the lower of cost or market. The state uses various valuation methods (FIFO, average, etc.) depending upon the state agency. The method used in each agency is consistent from year to year.

Consumable inventories that are material are expended at the time they are consumed. Immaterial consumable inventories are expended at the time of purchase, while inventories held for resale are expensed at the time of sale.

## I. INVESTMENTS

Items classified as investments are both short and long-term investments, which are generally stated at cost or amortized costs (See Note III-F). The investments of the deferred compensation plan are carried at market value.

The state treasurer records interest based on book yield as adjusted for amortization of premiums and discounts. Realized gains and losses related to market value are recognized only at the time of sale.

## J. PROPERTY, PLANT, AND EQUIPMENT

### Primary Government

Capital assets are carried at cost on the balance sheet. Donated capital assets are carried at their fair market value at the date of donation. The minimum dollar amount of assets that must be capitalized is $5,000.

Generally, the state does not capitalize interest during the construction of general fixed assets. General fixed assets are not depreciated. Assets in proprietary and nonexpendable trust are depreciated using the straight-line method. Assets in the college and university funds may be depreciated using the straight-line method.

The following useful lives are used for depreciation:

| | |
|---|---|
| Buildings | 25-40 years |
| Improvements other than buildings | 10-17 years |
| Furniture, machinery and equipment | 5-12 years |

### Component Units

The Denver Metropolitan Major League Baseball Stadium and the University of Colorado Hospital Authority capitalize interest during the construction of fixed assets.

## K. DEFERRED REVENUE

With the exception of higher education funds, revenues received from the federal government and other program sponsors are deferred until such time as the related expenditures are made. Also, it is the policy of the state's higher education institutions to defer summer school tuition to the following fiscal year.

## L. ACCRUED COMPENSATED ABSENCES LIABILITY

### Primary Government

State law concerning the accrual of sick leave was changed effective July 1, 1988. After that date all employees in classified permanent positions within the State Personnel System accrue sick leave at the rate of 6.66 hours per month. Total sick leave per employee is limited to their respective accrued balance on July 1, 1988 plus 360 additional hours. After earning the maximum accrual each employee may convert five hours of sick leave to one hour of annual leave. Employees are paid for one-fourth of their unused sick leave upon death or retirement.

Annual leave is earned at increasing rates based upon employment service longevity. In no event can a classified employee accumulate more than 42 days of annual leave at the end of a fiscal year. Employees are paid 100% of their annual leave balance upon leaving state service.

Compensated absence liabilities related to the governmental funds are recorded in the Long-Term Debt Account Group. The current portion of the compensated absence liability accrual is not recognized in the governmental funds as it is not expected to be funded out of current available resources. For all other fund types, both current and long-term portions are recorded as individual fund liabilities.

### Component Units

University of Colorado Hospital employees use paid time off (PTO) for vacation, holidays, short-term illness, and personal absences. Extended illness pay (EIP) is used to continue salary during extended absences due to medical disability or serious health conditions. Both PTO and EIP earnings are based on length of service. The hospital records PTO expense as earned. Extended illness pay earned as of June 30, 1997 and 1996 approximated $6.2 million and $5.9 million, respectively, of which $249,000 and $234,000, respectively, is expected to become payable and is accrued in the hospital's statements.

The Colorado Water Resources and Power Development Authority recognizes unused vacation benefits as they are earned.

## M. FUND EQUITY

Reserved fund balances indicate that a portion of fund equity is not available for expenditure, or is legally segregated for a specific use. Designated fund balances are not legally segregated, but indicate tentative management plans for future use of funds.

The fund balance of the General Fund consists of a reserved and an unreserved portion. Amounts are reserved as provided by statute or as provided by generally accepted accounting principles. The unreserved portion of fund equity is available for future use as working capital or to be appropriated. Since the state is prohibited by its Constitution from incurring general obligation debt, the unreserved fund equity must be positive at year-end.

Reserves of the fund equity at June 30, include:

Reserved for Encumbrances - In the General Fund, this reserve is for the portion of the Fiscal Year 1996-97 appropriation that was encumbered for goods and services that were, due to extenuating circumstances, not received prior to June 30, 1997. Thus, the specific appropriation related to these items is rolled-forward to Fiscal Year 1997-98.

In the Special Revenue and Capital Projects Funds this reserve represents purchase orders, contracts and long-term contracts related to construction of major capital projects. Since the resources of these funds are received, in many cases, after the long-term contracts are executed and recorded as encumbrances, the undesignated reserve or portion reserved for other specific purposes may reflect a deficit. This deficit will be funded by future proceeds.

Reserved for Other Specific Purposes - These reserves are used to indicate that a portion of fund balance is restricted as to its use. The restriction of the representative assets may have been placed there by their donor in the case of fiduciary funds, by statute in the General and other governmental type funds, or reserved for special purposes such as the payment of debt principal in the case of the Debt Service Fund.

In the college and university funds, all fund balances with the exception of the Current Unrestricted Fund are reserved to indicate the restrictions of available assets to specific purposes of these funds.

Reserved for Long-Term Assets and Long-Term Receivables - These reserves in the governmental funds are used to reserve the portion of fund balance that relates to long-term interfund receivables and other long-term assets. These assets are not currently available for appropriation.

Reserved for Statutory 4 Percent Requirement - CRS 24-75-201.1(d)(III) requires that four percent of the amount appropriated for expenditure from the General Fund be reserved for that fiscal year.

Reserved for Emergencies - Article X, Section 20 (TABOR) of the State Constitution requires the reservation of three percent or more of the 1996-97 Fiscal Year Spending for emergencies. Fiscal Year Spending is defined in TABOR as all spending and reserve increases except for spending from certain excluded revenues. See Note II-E, Tax, Spending and Debt Limitations.

**N. OUTSTANDING ENCUMBRANCES**

Encumbrance accounting, under which purchase orders and contracts for expenditures of money are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all funds except the College and University Funds.

Encumbrances do not constitute expenditures or liabilities, nor do they lapse at year-end, but are carried forward to the subsequent year, committing the available appropriation.

## NOTE II. BUDGETS - LEGAL COMPLIANCE

### A. BUDGETARY BASIS

The budgetary fund types used by the state differ from the generally accepted accounting fund types. These budgetary fund types are general, cash, and federal funds. For budgetary purposes, cash funds are all funds received by the state that have been designated to support specific expenditures. Federal funds are revenues received from the Federal government. General purpose revenues are not designated for specific expenditures.

Eliminations of transfers and intrafund transactions are not made in the budgetary funds if those transactions are under budgetary control. Thus, revenues and expenditures in these funds are shown at their gross amounts. This results in several instances of duplicate recording of revenues and expenditures. An expenditure of one budgetary fund may be shown as a transfer-in or a revenue in another budgetary fund.

### B. BUDGETARY PROCESS

The financial operations of the legislative, judicial, and executive branches of the state's government, with the exception of custodial funds or federal moneys not requiring matching state funds, are controlled by annual appropriation made by the General Assembly. The Transportation Department's portion of the Highway Fund is appropriated to the State Transportation Commission. Within the legislative appropriation, the Commission may appropriate the specific projects and other operations of the Department. In addition, the Commission may appropriate available fund balance from their portion of the Highway Fund.

The legislative appropriation is constitutionally limited to the unrestricted funds held at the beginning of the year plus revenues estimated to be received during the year as determined by the modified accrual basis of accounting. The original appropriation by the General Assembly in the Long Appropriations Bill segregates the budget of the state into its operating and capital components. The majority of the capital budgets are accounted for in the Capital Construction Fund, with the primary exception being budgeted capital funds used for infrastructure.

The Governor has line item veto authority over the Long Appropriations Bill, but the General Assembly may override each individual line item veto by a two-thirds majority vote in each house.

General and cash fund appropriations, with the exception of capital construction, lapse at year-end unless executive action is taken to roll-forward all or part of the remaining unspent budget authority. Appropriations that meet the strict criteria for roll-forward are reserved at year-end. Since capital construction appropriations are generally available for three years after appropriation, significant amounts of the capital budgets remain unexpended at fiscal year-end.

The appropriation controls the combined expenditures and encumbrances of the state, in the majority of the cases, to the level of line item within the agency. However, several agencies are appropriated at the agency level, and the institutions of higher education are appropriated at the governing board level. The appropriation may be adjusted in the following session of the General Assembly by a supplemental appropriation. Statutes allow the Judicial and Executive Branches, at year end, to transfer legislative appropriations within departments for expenditures of like purpose.

On the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity - Budgetary Basis - Budget and Actual,* the column titled Original Appropriation consists of the Long Appropriations Act including anticipated federal funds, special bills, and any statutorily authorized appropriations. The column titled Final Spending Authority includes the original appropriation, federal funds actually awarded, supplemental appropriations of the legislature, and other miscellaneous budgetary items.

## C. OVEREXPENDITURES

Expenditures/expenses are determined using the modified accrual or accrual basis of accounting even if the accrual will result in an overexpenditure. If earned cash revenues plus available fund balance, and earned federal revenues, are less than cash and federal expenditures, then an overexpenditure exists even if the expenditures did not exceed the total legislative line item appropriation.

The state controller may allow certain overexpenditures of the legal appropriation with the approval of the Governor. If the controller restricts the subsequent year appropriation, the agency is required to seek a supplemental appropriation from the General Assembly or reduce their subsequent year's expenditures.

Overexpenditures existing at June 30, 1997, for which the controller has restricted a future appropriation are:

- The Department of Corrections overexpended their appropriation of general funds for the housing of state prisoners in local jails by $319,187. The controller will restrict the full amount of the overexpenditure.
- The Infant Immunization Program in the Department of Health Care Policy and Financing was overexpended by $34,770 of general funds. Since the Fiscal Year 1997-98 appropriation cannot support a restriction of this amount, the controller will restrict a like amount of general funds in another line within the department.
- The Division of Private Occupational Schools in the Department of Higher Education overexpended its cash fund appropriation by $8,648 because of unanticipated and substantial increases in legal services. The controller will restrict this amount for Fiscal Year 1997-98.
- The Division of Parks and Outdoor Recreation in the Department of Natural Resources incurred and charged costs to the Federal Boat Safety Grant, and some of those charges were later disallowed by the federal government. This resulted in an over-expenditure of $69,132 in federal funds. The controller will restrict this amount in the Fiscal Year 1997-98 appropriation.
- The Infant Immunization Program in the Department of Public Health and Environment was overexpended by $66,667 of cash funds. Since the Fiscal Year 1997-98 appropriation is for only $20,211, the controller will restrict only that amount of cash fund appropriation.

Overexpenditures or fund deficits existing at June 30, 1997, for which the state controller will not restrict a future appropriation, are:

- The Department of Agriculture indemnifies owners of livestock cervidae whenever they are destroyed by order of the state veterinarian. The Cervidae Disease Revolving Fund had a fund deficit of $47,904 at June 30, 1997. But since the General Assembly authorized a loan to the fund, and a viable plan is in place to eliminate the debt, the controller will not restrict the Fiscal Year 1997-98 appropriation.
- Pikes Peak Community College had a deficit fund balance of $494,229 at June 30, 1997 in their auxiliary/self-funded operations caused by new program start-up costs and the loss of several large contracts. Because the college has agreed to more closely monitor its operations and the fund is not appropriated, the controller will not restrict any Fiscal Year 1997-98 appropriations of the college.
- The Supplier Data Base Fund administered by the Department of Personnel had a deficit fund balance of $120,435 at fiscal year-end. The controller will not restrict any future appropriation since the deficit relates to start-up costs of the program, the deficit was reduced by $85,650 during Fiscal Year 1996-97, and a plan is in place to eliminate the deficit.

- Various line item appropriations in the Department of Personnel, specifically involving the State Employees Assistance Program, Central Services, Central Collections, the Division of Administrative Hearings, and Network Services, were overexpended $326,467. Because the appropriations and revenues in total, of each of these programs, was sufficient to cover all program expenditures the controller will not restrict future appropriations.
- The Workers' Compensation Fund is a self-funded program. The actuarially determined current liabilities for this fund are recorded in the fund to the extent of available fund balance. At June 30, 1997, this resulted in an overexpenditure of $1,382,913 of the legislative appropriation. However, statute provides that overexpenditures are not to be considered an overexpenditure for purposes of CRS 24-75-109. For this reason the controller will not restrict the Fiscal Year 1997-98 appropriation.
- The Department of Public Safety overexpended their cash appropriation for the CBI Criminal Justice Records Act by $373,210. Since other revenues related to this program were adequate to cover the overexpenditure the controller will not restrict the Fiscal Year 1997-98 appropriation.

As provided by statute, CRS 24-75-109, there is unlimited authority for Medicaid overexpenditures. The Department of Human Services is allowed $1 million in overexpenditures not related to Medicaid and unlimited overexpenditures for self-insurance of its worker's compensation plan. An additional $1 million over-expenditure is allowed for the Judicial Branch. Statute also allows overexpenditures up to $1 million in total for the remainder of the executive branch.

A separately issued report comparing line item expenditures to authorized budget is available upon request from the State Controller's Office.

| (DOLLARS IN THOUSANDS) | GOVERNMENTAL FUND TYPES | | | |
|---|---|---|---|---|
| | GENERAL | SPECIAL REVENUE | DEBT SERVICE | CAPITAL PROJECTS |
| BUDGETARY BASIS: | | | | |
| Revenues and Transfers-In: | | | | |
| General Funded | $ 4,679,409 | $ - | $ - | $ 321,682 |
| Cash Funded | 2,317,860 | 1,357,612 | 38,225 | 58,422 |
| Federally Funded | 1,920,139 | 206,245 | - | 7,537 |
| Sub-Total Revenues and Transfers-In | 8,917,408 | 1,563,857 | 38,225 | 387,641 |
| Expenditures/Expenses and Transfers-Out | | | | |
| General Funded | 4,531,307 | - | - | 336,291 |
| Cash Funded | 2,248,006 | 1,268,466 | 37,661 | 58,046 |
| Federally Funded | 1,923,131 | 206,129 | - | 7,480 |
| Expenditures/Expenses and Transfers-Out | 8,702,444 | 1,474,595 | 37,661 | 401,817 |
| Excess of Revenues and Transfers-In Over (Under) Expenditures and Transfers-Out | 214,964 | 89,262 | 564 | (14,176) |
| FUND BALANCE, JULY 1 - GAAP BASIS | 640,195 | 535,440 | 3,587 | 546,278 |
| Add: Budgeted Non-GAAP Expenditures | 1,297 | 12,852 | - | - |
| Increase/(Decrease) for GAAP Expenditures Not Budgeted | (32,541) | (17,415) | - | 22,404 |
| (Increase)/Decrease for GAAP Revenues Adjustments | (109,525) | 17,502 | - | (22,446) |
| Increase (Decrease) in Non-Budgeted Funds | (2) | - | - | - |
| Prior Period Adjustments | (2,186) | - | - | - |
| FUND BALANCE, JUNE 30 - GAAP BASIS | $ 712,202 | $ 637,641 | $ 4,151 | $ 532,060 |

**D. BUDGET TO GAAP RECONCILIATION**

The *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity, Budget and Actual - All Budgeted Funds* compares those revenues and expenditures which are legislatively appropriated or otherwise legally authorized. College and university funds, with the exception of the state appropriated amounts are excluded from this statement.

Certain expenditures on a generally accepted accounting principle (GAAP) basis such as bad debt expense and depreciation are not budgeted by the General Assembly. These expenditures are shown as "GAAP Expenditures Not Budgeted" on the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/-Equity, Budget and Actual - All Budgeted Funds*.

Some transactions considered expenditures for budgetary purposes, such as capital purchases in proprietary fund types, are not expenditures on a GAAP basis. These expenditures are shown as "Budgeted Non-GAAP Expenditures." Some transactions considered revenues for budgetary purposes, such as intrafund sales, are not revenues on a GAAP basis. These are shown as "GAAP Revenue Adjustments." The inclusion of these revenues and expenditures in the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity, Budget and Actual - All Budgeted Funds* is necessary to reconcile fund balance.

A reconciliation of the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/-Equity, Budget and Actual - All Budgeted Funds* to the fund balances of the GAAP fund types follows:

| PROPRIETARY FUND TYPES | | FIDUCIARY FUND TYPES | ACCOUNT GROUPS | | | |
|---|---|---|---|---|---|---|
| ENTERPRISE | INTERNAL SERVICE | TRUST & AGENCY | GENERAL FIXED ASSETS | GENERAL LONG-TERM DEBT | COLLEGE AND UNIVERSITY FUNDS | **TOTAL PRIMARY GOVERNMENT** |
| $ - | $ - | $ - | $ - | $ - | $ - | $ 5,001,091 |
| 437,739 | 170,059 | 422,218 | - | - | 1,138,621 | 5,940,756 |
| 64,278 | - | 16,517 | - | - | 733 | 2,215,449 |
| 502,017 | 170,059 | 438,735 | - | - | 1,139,354 | 13,157,296 |
| - | - | - | - | - | - | 4,867,598 |
| 422,441 | 171,084 | 336,497 | - | - | 1,123,362 | 5,665,563 |
| 54,998 | - | 16,268 | - | - | 733 | 2,208,739 |
| 477,439 | 171,084 | 352,765 | - | - | 1,124,095 | 12,741,900 |
| 24,578 | (1,025) | 85,970 | - | - | 15,259 | 415,396 |
| 76,851 | 34,769 | 1,127,822 | 1,248,385 | - | 2,437,653 | 6,650,980 |
| 1,170 | 75 | 43 | - | - | - | 15,437 |
| (16,495) | (4,507) | (2,713) | - | - | (45) | (51,312) |
| 2,130 | - | - | - | - | - | (112,339) |
| - | - | - | 129,799 | - | 145,982 | 275,779 |
| (8,317) | - | - | - | - | (1,165) | (11,668) |
| $ 79,917 | $ 29,312 | $ 1,211,122 | $ 1,378,184 | $ - | $ 2,597,684 | $ 7,182,273 |

### E. TAX, SPENDING, AND DEBT LIMITATIONS

Certain state revenues, primarily taxes and fees, are limited under Article X, Section 20 (TABOR) of the State Constitution. The growth in these revenues from year to year are limited to the rate of population growth plus the rate of inflation. The constitution also requires voter approval for any new tax, tax rate increase, or new debt. These limitations are applied to the state as a whole, not to individual funds, departments or agencies of the state. Annual revenues in excess of the constitutional limitation must be refunded, unless voters approve otherwise.

The state exceeded the revenue growth limitation for the first time in Fiscal Year 1996-97. A liability was accrued in the General Fund for the amount in excess of the limitation and is shown on the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds* in the Other Financing Sources (Uses) as TABOR Refund.

A separately issued audited report of TABOR computations for Fiscal Year 1996-97 will be available from the State Controller's Office in early 1998.

## NOTE III. OTHER ACCOUNTING DISCLOSURES

### A. CASH, POOLED CASH, AND CASH EQUIVALENTS

**Primary Government**

The State Treasury acts as a bank for all state agencies, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. Interest earnings on these investments are credited to the General Fund, unless a specific statute directs otherwise. The detailed composition of the cash and investments is shown in the annual Treasurer's Report.

State agencies are authorized by various statutes to deposit funds in accounts outside the custody of the State Treasury. Legally authorized deposits include demand deposits and certificates of deposit. The state's cash management policy is to invest all major revenues as soon as the moneys are available within the banking system. Electronic transfers are used by the state to enhance availability of funds for investment purposes.

Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in CRS 11-10.5-107(5) requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102% of the deposits exceeding those amounts insured by federal insurance.

The state maintains accounts and certificates of deposits for various purposes at locations throughout the state. Cash balances not required for immediate use are deposited either through the investment pool administered by the state treasurer or by the fund custodians.

The state categorizes its cash into three categories as to their risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by the state or its agent in the state's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the state's name.

At June 30, 1997 the state had cash balances in all funds with a carrying value of $762.1 million. The bank balances of these funds are categorized by risk as follows:

| Risk Category | Bank Balance June 30 |
|---|---|
| 1 | $ 612,634,741 |
| 2 | 161,669,792 |
| 3 | 222,630 |
| TOTAL | $ 774,527,163 |

The Cash and Cash Equivalents line on the financial statements includes $2,415.7 million of claims of the state's funds in the treasurer's pooled cash. At June 30, 1997, the treasurer had invested $2,341.0 million of the pool with the balance in demand deposits and certificates of deposit.

**Component Units**

At December 31, 1996 the Colorado Water Resources and Power Development Authority had federally insured cash deposits with a bank balance of $80,972.

At December 31, 1996 the Denver Metropolitan Major League Baseball Stadium District had federally insured cash deposits with a bank balance of $30,185. They also had $1,813,946 in money market funds which are not guaranteed.

At June 30, 1997 the University of Colorado Hospital Authority had a bank balance of $1,765,000. Of that balance $200,000 was covered by federal depository insurance and $1,565,000 fell under the provisions of the Colorado Public Deposit Protection Act of 1975 and is collateralized in single institution pools with securities held by the pledging institution's trust department or agent, but not in the authority's name.

**B. NONCASH TRANSACTIONS IN THE PROPRIETARY FUND TYPES**

In the proprietary fund types there are several noncash transactions that are listed on the *Combined Statement of Cash Flows, All Proprietary Fund Types and Similar Trust Funds and Discretely Presented Component Units*. The following explains those items:

- The state nursing homes, an enterprise activity, received $8,938 of fixed assets contributed by the Capital Construction Fund, and $30,691 from donated fixed assets. In addition, a loan from the General Fund for $407,348 was forgiven by the legislature.
- Fixed assets totaling $8,317,467 were transferred from the state nursing homes to the General Fixed Asset Group of Accounts. In addition, the state nursing homes had a loss of $12,869 on the disposal of some fixed assets.
- Guaranteed Student Loan, an enterprise activity, assumed $24,860 in lease obligations for the purchase of equipment.
- On June 30, 1997, $2,128,889 in net assets were contributed to the State Fair Authority, an enterprise activity, by the previous State Fair Authority, a component unit. Included in this amount were $1,462,491 of noncash net assets.
- Surplus Property, an enterprise activity, converted $19,682 of inventory received from the federal government to fixed assets.
- Telecommunications, an internal service activity, received $2,739,709 of fixed assets from the Capital Construction Fund.
- Central Services, an internal service activity increased their capital lease obligations by $8,317,629 to acquire additional vehicles for their fleet program.

**Component Units**

Certain noncash transactions are listed on the *Combined Statement of Cash Flows, All Proprietary Fund Types and Similar Trust Funds and Discretely Presented Component Units*. The following explains those items:

- The Denver Metropolitan Major League Baseball Stadium District reclassified the cost of property condemned by the City of Denver to a receivable account for $303,185.
- The Denver Metropolitan Major League Baseball Stadium District also accrued ballpark improvement costs of $112,075 as accounts payable.

## C. RECEIVABLES

### Primary Government

The taxes receivable of $716.6 million results from the recording of self-assessed taxes on the modified accrual basis. The other receivables of $250.4 million are net of a deduction of $124.0 million in allowance for doubtful accounts.

### Component Units

The Colorado Water Resources and Power Development Authority had loans receivable of $214.8 million and $201.6 million at December 31, 1996 and 1995, respectively. During 1996 they made new loans of $21.2 million and canceled, or received repayments for existing loans of $8.0 million.

The University of Colorado Hospital Authority has a significant concentration of patient accounts receivable with Medicare (21 percent), Medicaid (11 percent), and Blue Cross (5 percent). However, the authority's management does not believe that there are any credit risks associated with these payers. Further, the authority continually monitors and adjusts its reserves and allowances associated with these receivables. Net patient service revenues under the Medicare and Medicaid programs in Fiscal Year 1997 and 1996 were approximately $57.6 million and 45.2 million, respectively.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

## D. INTERFUND BALANCES

Individual fund interfund receivable and payable balances at June 30, 1997 are:

(Amounts in Thousands)

| Fund | Interfund Receivables | Interfund Payables |
|---|---|---|
| General Fund | $ 29,074 | $ 21,157 |
| Special Revenue Funds | | |
| Highway | 2,998 | 497 |
| Wildlife | 1,706 | - |
| Labor | - | 116 |
| Gaming | 5,962 | 25,488 |
| Water Projects | 221 | - |
| Capital Projects Funds | 5,225 | 8,739 |
| Enterprise Funds | | |
| Guaranteed Student Loan | 20 | 2 |
| State Lottery | - | 16,597 |
| State Nursing Homes | - | 120 |
| Prison Canteens | 30 | 2 |
| Correctional Industries | 16 | 191 |
| Other Enterprise Activities | 94 | 1 |
| Internal Service Funds | | |
| Central Services | 40 | - |
| Telecommunications | - | 152 |
| Administrative Hearings | 1 | - |
| Expendable Trust Funds | 19,983 | 3,221 |
| Nonexpendable Trust Funds | 232 | 1 |
| Agency Funds | 4,175 | 4,985 |
| College and University Funds | 26,261 | 14,769 |
| TOTALS | $ 96,038 | $ 96,038 |

## E. INVENTORY

Inventories of $51.2 million in the General Fund at June 30, 1997, consisted of $7.2 million in consumable inventories, and $44.0 million in food stamps received from the federal government and offset by an equal amount in deferred revenue.

## F. INVESTMENTS

### Primary Government

The state holds investments both for its own benefit and as an agent for other specified entities as provided by law. Investment of funds not required for immediate payments are administered by the authorized custodian of the funds or pooled and administered by the state treasurer.

The state treasurer maintains moneys in an agency fund for the Great Outdoors Colorado Program (GOCO), a related party. At June 30, 1997 the treasurer had $49.7 million of GOCO's funds on deposit and invested. The treasurer also maintains an agency fund for the Colorado Compensation Insurance Authority (CCIA), a related party. At June 30, 1997, the treasurer had $772.1 million of CCIA's funds on deposit and invested.

Colorado Revised Statutes 24-75-601.1 authorizes the type of investments that the state may hold. In general, the statute requires securities that are of the highest quality as determined by national rating agencies, those guaranteed by another state or the federal government, or a registered money market fund whose policies meet criteria set forth in the statute.

The state categorizes the custodial risks of its investments into the following categories:

- Category A is those investments which are insured or registered securities held by the state or its agent in the state's name.
- Category B is those investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
- Category C is those investments which are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the state's name.

Investments not categorized as to risk are reverse repurchase agreements and mutual funds for which ownership is not evidenced by securities, and thus, cannot be categorized as to custodial risk.

The following table lists the state's investments by type and risk category:

(Amounts in Thousands)

| Type of Investment | Risk Category A | Risk Category B | Risk Category C | Carrying Amount | Market Value |
|---|---|---|---|---|---|
| U.S. Government Securities | $ 2,042,116 | $ 12,786 | $ 26,641 | $ 2,081,543 | $ 2,104,483 |
| Bankers' Acceptance | 219,474 | - | - | 219,474 | 219,515 |
| Commercial Paper | 332,176 | 1,067 | - | 333,243 | 333,271 |
| Corporate Bonds | 202,920 | - | 6,363 | 209,283 | 209,373 |
| Corporate Securities | 12,593 | 1,360 | 640 | 14,593 | 16,490 |
| Repurchase Agreements | 55,701 | - | - | 55,701 | 57,388 |
| Asset Backed Securities | 713,692 | - | 648 | 714,340 | 715,663 |
| Mortgages | 360,444 | - | 122 | 360,566 | 367,546 |
| Other | 520 | - | - | 520 | 519 |
| Subtotal | $ 3,939,636 | $ 15,213 | $ 34,414 | 3,989,263 | 4,024,248 |
| Uncategorized | | | | 324,693 | 333,797 |
| TOTALS | | | | $ 4,313,956 | $ 4,358,045 |

The following schedule reconciles deposits and investments to the financial statements for the primary government:

(Amounts in Thousands)

| Footnote Amounts | Carrying Amount |
|---|---|
| Deposits | $ 762,134 |
| Investments | 4,313,956 |
| Total Balance Sheet Cash and Cash Equivalents, Investments, and Rights Under Deferred Compensation | $ 5,076,090 |

Colorado Revised Statutes 24-36-113 authorize the state treasurer to enter into collateralized securities lending agreements. During Fiscal Year 1996-97, the treasurer loaned U.S. government and federal agencies' securities held for the Colorado Compensation Insurance Authority to Morgan Stanley. Morgan Stanley pays Treasury an agreed upon fee for use of these securities. Collateral is deposited and held in a custodial bank.

Currently, collateral held by the custodial bank includes A-rated or better domestic corporate bonds, however, the agreement allows for collateral to include government and federal agencies' securities as well. Corporate securities held as collateral must equal at least 105 percent of the market value of the loaned securities, while government securities must equal at least 102 percent of the market value. The treasurer does not have the authority to pledge or sell collateral securities without a borrower default, nor does the treasurer accept cash as collateral.

Morgan Stanley, acting as the principal, is directly responsible for the safeguarding of assets and carries a financial institution bond which is substantially in excess of the amount required by the New York Stock Exchange. On June 30, 1997, the market value of securities on loan was $359,584,497, with a carrying value of $346,932,846. The market value of the collateral securities pledged was $381,816,251.

State statutes permit the state treasurer to enter into reverse repurchase agreements. It is the policy of the treasurer to match maturities of the investments made with the proceeds of the reverse repurchase agreements to the securities underlying the reverse repurchase agreements. Maturities of investments made with proceeds of outstanding agreements on June 30, 1997 matched those of the agreements.

During the year the treasurer made reverse repurchase agreement transactions totaling $4.22 billion. Interest charged or accrued on June 30, 1997, for these reverse repurchase agreements was $4,975,113. Due to arbitrage the treasurer had realized or accrued interest income on June 30, 1997 of $5,092,294 resulting in a net gain of $117,181 at fiscal year end.

At June 30, 1997 the treasurer had reverse repurchase agreements outstanding of $24,850,000 which includes an additional $40,243 in interest payable. The proceeds of these agreements were reinvested in investments with matching maturities which will net the state an additional $41,003 interest earnings, resulting in a gain of $759 at maturity.

Outstanding reverse repurchase agreements at June 30, 1997 were:

- $24,850,000 received to be repaid at 5.30 percent on July 11, 1997. The underlying securities for this transaction are $25,000,000 in U.S. Treasury Notes maturing June 30, 1998; with a carrying value of $24,466,338 and a market value of $24,847,750.

**Component Units**

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which governmental units may invest. The risk criteria are defined the same as for the primary government.

The University of Colorado Hospital Authority has adopted Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities, which requires all debt securities to be recorded at fair value. The hospital maintains only available for sale securities, which include any security for which the Authority has no immediate plan to sell but which may be sold in the future. Interest, dividends, and realized gains and losses, based on the specific identification method, are included in nonoperating income when earned. Unrealized gains and losses are recorded in fund balance.

The following table lists the component units' investments by type and risk category:

(Amounts in Thousands)

| Type of Investment | Risk Category A | Risk Category B | Risk Category C | Carrying Amount | Market Value |
|---|---|---|---|---|---|
| U.S. Government Securities | $ 74,755 | $ - | $ 8,285 | $ 83,040 | $ 84,090 |
| Repurchase Agreements | - | - | 33,177 | 33,177 | 33,177 |
| Corporate Bonds | 28,776 | - | - | 28,776 | 28,776 |
| Equity Securities | 30,268 | - | - | 30,268 | 30,268 |
| Other | 22,648 | - | - | 22,648 | 22,648 |
| Subtotal | $ 156,447 | $ - | $ 41,462 | 197,909 | 198,959 |
| Uncategorized | | | | 28,695 | 28,695 |
| TOTALS | | | | $ 226,604 | $ 227,654 |

**G. PROPERTY, PLANT, AND EQUIPMENT**

**Primary Government**

A summary of fixed assets by account groups and fund types follows:

(Amounts in Thousands)

| | General Fixed Assets Account Group | Enterprise Funds | Internal Service Funds | Fiduciary Funds | College & University Funds | Totals |
|---|---|---|---|---|---|---|
| Land and Improvements | $ 194,079 | $ 6,162 | $ - | $ 7,517 | $ 148,847 | $ 356,605 |
| Buildings and Improvements | 730,613 | 22,239 | 847 | - | 1,391,532 | 2,145,231 |
| Equipment | 335,565 | 29,063 | 81,815 | 497 | 523,893 | 970,833 |
| Library Books and Holdings | 3,003 | - | - | 3,833 | 220,137 | 226,973 |
| Construction in Progress | 104,514 | 78 | 10,228 | 54 | 217,002 | 331,876 |
| Other | 10,410 | 58 | 16,978 | - | 782 | 28,228 |
| Less: Accumulated Depreciation | - | (26,190) | (60,268) | - | (1,240) | (87,698) |
| Totals | $ 1,378,184 | $ 31,410 | $ 49,600 | $ 11,901 | $ 2,500,953 | $ 3,972,048 |

A statement of changes in general fixed assets for the year ended June 30, 1997, is shown below:

(Amounts in Thousands)

| | Beginning Balance July 1 | Additions | Deductions | Net Change | Ending Balance June 30 |
|---|---|---|---|---|---|
| Land and Improvements | $ 177,123 | | | $ 16,956 | $ 194,079 |
| Buildings and Improvements | 688,155 | | | 42,458 | 730,613 |
| Equipment | 332,835 | | | 2,730 | 335,565 |
| Library Books and Holdings | 2,895 | | | 108 | 3,003 |
| Construction in Progress | 36,968 | | | 67,546 | 104,514 |
| Other | 10,409 | | | 1 | 10,410 |
| Totals | $ 1,248,385 | $ 160,288 | $ 30,489 | $ 129,799 | $ 1,378,184 |

During Fiscal Year 1996-97, the University of Colorado changed its threshold for the capitalization of fixed assets to $5,000 from $500 causing a reduction of $65.7 million in capitalized furniture and equipment.

**Component Units**

At December 31, 1996, the Colorado Water Resources and Power Development Authority reported furniture and fixtures, net of accumulated depreciation, of $58,780.

At December 31, 1996, the Denver Metropolitan Baseball Stadium District reported land and improvements, buildings, and other property and equipment, net of accumulated depreciation of $193.2 million and $198.1 million for 1996 and 1995 respectively.

At June 30, 1997, the University of Colorado Hospital Authority reported gross amounts for land, buildings and improvements of $139.0 million, equipment of $79.6 million, and construction in progress of $8.6 million. Accumulated depreciation related to these fixed assets was $75.0 million.

## H. OTHER LONG-TERM ASSETS

In the governmental funds, the state has reserved the fund balance for long-term assets and long-term loans receivable. The loans in the Special Revenue Fund are made to local entities by the Water Conservation Board for the purpose of constructing water projects in the state. These loans are made for periods ranging from 10 to 40 years at interest rates of 2 to 4 percent. The loans require the entities to make a yearly payment of principal and interest.

## I. FUND BALANCE DEFICITS

The fund deficit of $166.8 million in undesignated fund equity of the Special Revenue Funds is the result of the reserving of fund balance for purchase orders and long-term contracts made related to highway construction. This deficit will be funded from future proceeds of the Highway Fund.

## J. FUND EQUITY

Fund equities reserved for other specific purposes at June 30, 1997 are:

(Amounts in Thousands)

| Reserved For | General Fund | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Fiduciary Funds |
|---|---|---|---|---|---|
| Debt Retirement | | | $ 4,151 | | |
| Federal or Other Restrictions | | | | $ 21,020 | |
| Unemployment Benefits | | | | | $ 597,353 |
| Public School Permanent Moneys | | | | | 282,617 |
| Benefits for Injured Workers | | $ 94,629 | | | |
| Water Conservation Construction | | 93,955 | | | |
| Wildlife, Parks and Outdoor Recreation | $ 707 | 71,905 | | | 846 |
| Controlled Maintenance Trust Fund | | | | | 71,942 |
| Family Issues Cash Fund | 67,412 | | | | |
| Colorado Gaming Fund | | 28,945 | | | |
| Hazardous Substances Response | 24,810 | | | | |
| Energy Conservation | 24,303 | | | | |
| Severance Tax | 18,988 | | | | 22,358 |
| Uninsurable Health Insurance Plan | 13,959 | | | | |
| Uranium Mill Tailing Removal | 12,907 | | | | |
| Public School Fund | 12,766 | | | | |
| Petroleum Storage Tank Fund | 12,062 | | | | |
| Victims of Crime | 1,409 | | | | 11,998 |
| Mineral Leasing | 11,611 | | | | |
| Disaster Emergency Fund | 11,401 | | | | |
| Secretary of State's Fees | 8,298 | | | | |
| Economic Development Moneys | 7,783 | | | | |
| Workers Compensation Regulation | 7,056 | | | | |
| Aviation Fund | 5,145 | | | | |
| Old Age Pension Stabilization | 5,000 | | | | |
| Regulatory License and Fee Adjustment | 4,128 | | | | |
| Mined Land Reclamation | 753 | | | | 3,737 |
| Limited Gaming Impact Fund | 3,519 | | | | |
| Elderly Property Tax Deferral | 3,515 | | | | |
| Drug Offenders Surcharge Fund | 3,261 | | | | |
| General Liability Fund | 3,101 | | | | |
| CERCLA Recovery Fund | 3,069 | | | | |
| Distributed Data Processing | | 2,943 | | | |
| Inactive Mines | | | | | 2,875 |
| Real Estate Recoveries | | | | | 2,605 |
| Unemployment Revenue Fund | 2,460 | | | | |
| Patient Benefit Fund | | | | | 2,261 |
| Public Employees Social Security | 2,242 | | | | |
| Public Utilities Commission High Cost Fund | 2,125 | | | | |

(Continued

(Continued)

(Amounts in Thousands)

| Reserved For | General Fund | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Fiduciary Funds |
|---|---|---|---|---|---|
| Treasurer's Escheats Fund | | | | | 2,111 |
| Domestic Water Supply Project | 2,009 | | | | |
| Risk Management Property Fund | 2,007 | | | | |
| Children's Trust Fund | 2,000 | | | | |
| Emergency Medical Services | | 1,890 | | | |
| Supreme Court Grievance Committee | | | | | 1,872 |
| Emission Control | | 1,814 | | | |
| Emergency Response Cash Fund | 1,799 | | | | |
| Brand Inspection Fund | 1,762 | | | | |
| Housing Rehabilitation Revolving Loans | | | | | 1,627 |
| Low Income Telephone Assistance | 1,337 | | | | |
| Infant Immunization | 1,319 | | | | |
| Disabled Telephone Users Fund | 1,287 | | | | |
| Sales of Public Safety Vehicles | | 1,253 | | | |
| Art in Public Places | 1,233 | | | | |
| Central Indexing System | 1,171 | | | | |
| Hazardous Waste Fees | 1,119 | | | | |
| Motor Carrier Fund | 1,114 | | | | |
| Other Special Purpose Programs | 34,207 | 319 | | | 11,662 |
| Totals | $ 326,154 | $ 297,653 | $ 4,151 | $ 21,020 | $ 1,015,864 |

## K. PRIOR PERIOD ADJUSTMENTS

### Primary Government

On the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, All Governmental Fund Types, Expendable Trust Funds, and Discretely Presented Component Units*, the fund balance of the General Fund decreased by $2,185,542 because the Department of Revenue posted a tax receipt for that amount twice in Fiscal Year 1995-96, thus overstating the beginning fund balance for Fiscal Year 1996-97 by that amount.

On the *Combined Statement of Revenues, Expenses, and Changes in Fund Equity, All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units* the beginning fund balance of the Enterprise Fund was decreased by $8,317,467 because assets that were recorded on the books of the State Nursing Home at Walsenburg were paid for by the Huerfano County Hospital District and are being depreciated by the District over their useful life. Since the state is not depreciating but retains title to these assets, they were removed from the Enterprise Fund and recorded in the Fixed Asset Group of Accounts.

On the *Combined Statement of Changes in Fund Balance, All College and University Funds* the beginning fund balance of the Current Unrestricted Fund was increased by $2,667,280 and the beginning fund balance of the Unexpended Plant Fund was decreased by the same amount because it was determined that the Colorado State University Research Building Revolving Fund was an enterprise activity. Thus the cash and related fund balance of this activity was transferred from the Plant Funds to the Current Unrestricted Fund.

The beginning fund balance of the Current Unrestricted Fund was also increased by $97,348 for the first time blending of the University of Northern Colorado Alumni Association into the reporting entity.

Also on the *Combined Statement of Changes in Fund Balance, All College and University Funds* the beginning fund balance of the Investment in Plant Fund was decreased by $1,261,516 because the Auraria Higher Education Center had inappropriately recorded a contra liability account for that amount in Fiscal Year 1995-96.

## L. TRANSFERS BETWEEN FUNDS

Major operating transfers between funds for the fiscal year ended June 30, 1997, were as follows:

(Amounts in Thousands)

| Transfer | Amount |
|---|---|
| General Fund to Higher Education | $ 595,856 |
| General Fund to Capital Construction | 248,968 |
| Capital Construction to Highway Fund | 96,429 |
| Capital Construction to Higher Education | 95,930 |
| Capital Construction to Debt Service Fund | 37,639 |
| Lottery Fund to Conservation Trust Fund | 34,336 |
| Highway Fund to General Fund | 33,536 |
| School Income Expendable Trust to General Fund | 29,698 |
| Gaming Fund to General Fund | 22,674 |
| Capital Construction to General Fund | 20,000 |
| Lottery Fund to Wildlife Fund | 8,584 |
| Treasurer's Expendable Trust to General Fund | 5,827 |
| Wildlife Fund to Capital Construction Fund | 4,893 |
| Controlled Maintenance Trust to Capital Construction | 4,252 |
| General Fund to State Fair Enterprise Fund | 4,000 |
| General Fund to Water Projects Construction Fund | 3,711 |
| Higher Education to General Fund | 3,273 |
| Severance Tax Trust to General Fund | 2,912 |
| Wildlife Fund to General Fund | 2,689 |
| Gaming Fund to Highway Fund | 2,658 |
| Highway Fund to Capital Construction | 2,311 |
| Water Projects Construction Fund to General Fund | 1,690 |
| Other Expendable Trust to General Fund | 1,509 |
| Nonexpendable Trust to General Fund | 1,285 |
| Internal Service to General Fund | 1,147 |
| Internal Service to Highway Fund | 622 |
| Other | 13,326 |
| Total | $ 1,279,755 |

In addition to the above transfers, residual equity transfers were made to the proprietary funds from the governmental funds and the General Fixed Assets Group of Accounts. The account groups do not have a statement of operations, and thus, matching transfers are not shown in the statements. In the proprietary funds, these are shown as "Additions To Contributed Capital" in the fund equity section of the *Combined Statement of Revenues, Expenses, and Changes in Fund Equity, All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units* in the amount of $5,333,608. This amount comprises the following transactions:

- During Fiscal Year 1996-97, $48,724 was transferred from the Highway Fund, a special revenue fund, to the Highways Internal Service Fund.
- Upon completion of a capital construction project, the Telecommunications Internal Service Fund received $2,739,709 in assets from the General Fixed Assets Account Group, which were funded by the Capital Construction Fund and shown as additions to contributed capital. The account group does not have an operating statement, thus there is not a corresponding transfer-out.
- During Fiscal Year 1996-97, the State Fair Authority discontinued operations as a legal entity separate from the state. Thus, its net assets of $2,128,889 were added to the Enterprise Fund at year-end.
- The State Nursing Homes, an enterprise fund, received $8,938 of fixed assets from the General Fixed Assets Account Group, which were funded by the Capital Construction Fund and shown as additions to contributed capital. The account group does not have an operating statement, thus there is not a corresponding transfer-out. The fund also recorded $407,348 in Additions to Contributed Capital for the forgiveness of a loan due to the General Fund.

## M. SEGMENT INFORMATION

### Primary Government

The principal activities of the state's enterprise funds are the guaranteed student loan program, the lottery, the state's nursing homes, enterprises at the state's prisons, and the state fair.

The guaranteed student loan program guarantees loans made by private lending institutions, in compliance with operating agreements with the U.S. Department of Education, to students attending postsecondary schools.

The State Lottery encompasses the various lottery and lotto games run under state statute. In the past, net proceeds were used to support various state construction projects. In Fiscal Year 1993-94, the Great Outdoors Colorado Program began the phased reduction of the amount of net lottery proceeds available for state construction projects.

The state nursing homes provide nursing home and retirement care to the elderly. The state's nursing homes are located at Homelake, Walsenburg, Florence, Rifle, and Trinidad.

Enterprise activities at the state's prisons include the sale of manufactured goods and farm products produced by convicted criminals who are incarcerated in the state's prison system.

Segment information for the enterprise funds of the state for the year ended June 30, 1997, is:

(Amounts in Thousands)

| | GUARANTEED STUDENT LOAN | STATE LOTTERY | BUSINESS ENTERPRISE PROGRAM | STATE NURSING HOMES | PRISON CANTEENS | CORREC-TIONAL INDUSTRIES | STATE FAIR AUTHORITY | OTHER ENTERPRISE ACTIVITIES | TOTALS |
|---|---|---|---|---|---|---|---|---|---|
| Operating Revenue | $ 69,750 | $361,024 | $ 466 | $ 16,204 | $ 7,197 | $ 23,951 | $ - | $ 3,636 | $ 482,228 |
| Federal Grants and | | | | | | | | | |
| Contracts | 57,823 | - | 678 | 4,388 | - | - | - | 1,390 | 64,279 |
| Depreciation | 523 | 382 | 240 | 448 | 20 | 912 | - | 18 | 2,543 |
| Operating Income | 3,474 | 41,708 | (687) | 77 | 1,355 | 459 | - | (233) | 46,153 |
| Operating | | | | | | | | | |
| Transfers-In | - | - | - | 226 | - | - | 4,000 | 21 | 4,247 |
| Transfers-(Out) | (250) | (43,281) | - | (96) | (49) | (389) | - | (140) | (44,205) |
| Net Income (Loss) | 3,224 | 42 | 8 | 202 | 1,325 | 116 | 4,000 | (78) | 8,839 |
| Additions to | | | | | | | | | |
| Contributed Capital | - | - | - | 416 | - | - | 2,128 | - | 2,544 |
| Working Capital | 33,755 | 89 | 430 | 2,956 | 3,978 | 11,334 | 692 | 1,416 | 54,650 |
| Increase in Net Property, | | | | | | | | | |
| Plant, and Equipment | 269 | 252 | 70 | (8,517) | (2) | (428) | 8,029 | 14 | (313) |
| Total Assets | 55,128 | 44,882 | 1,425 | 10,675 | 4,776 | 22,379 | 13,546 | 6,139 | 158,950 |
| Bonds and Other Long- | | | | | | | | | |
| Term Liabilities | 668 | 759 | 42 | 1,112 | 40 | 1,591 | 2,680 | 79 | 6,971 |
| Fund Equity | 34,511 | 1,261 | 1,067 | 8,973 | 4,291 | 18,321 | 6,128 | 5,365 | 79,917 |

**Component Units**

The Colorado Water Resources and Power Development Authority's purpose is to initiate, acquire, construct, maintain, repair and operate, or cause to be operated, projects for the protection, preservation, conservation, upgrading, development and utilization of the water resources of the state.

The Denver Metropolitan Major League Baseball Stadium District includes all or part of the six counties in the Denver metro area. The District was created for the purpose of acquiring, constructing and operating a major league baseball stadium. The District levies a sales tax of one-tenth of one percent throughout this District for a period not to exceed 20 years for this purpose.

University Hospital is a nonsectarian, general acute care regional hospital operated by the University of Colorado Hospital Authority. It is the teaching hospital of the University of Colorado Health Sciences Center. The hospital's mission is to provide education, research and a full spectrum of primary, secondary and tertiary health care services to the Denver metropolitan area and the Rocky Mountain Region.

The Colorado Uninsurable Health Insurance Plan is a nonprofit public entity created to provide access to health insurance for those Colorado residents that are unable to obtain health insurance, or unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

The following is condensed financial information for the component units for their respective fiscal years:

| DOLLARS IN THOUSANDS | PROPRIETARY FUND TYPES | | | | FIDUCIARY FUND TYPE |
|---|---|---|---|---|---|
| | DENVER METROPOLITAN MAJOR LEAGUE BASEBALL STADIUM DISTRICT | UNIVERSITY OF COLORADO HOSPITAL AUTHORITY | COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY | COLORADO UNINSURABLE HEALTH INSURANCE PLAN | COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY |
| ASSETS: | | | | | |
| Current Assets | $ 7,007 | $ 58,204 | $ 66,158 | $ 3,255 | $ 43,085 |
| Investments | - | 123,753 | 56,685 | - | 22,608 |
| Property, Plant and Equip., net | 193,204 | 152,187 | 59 | - | - |
| Other Long-Term Assets | 1,958 | 11,503 | 206,118 | 13,027 | - |
| Total Assets | $ 202,169 | $ 345,647 | $ 329,020 | $ 16,282 | $ 65,693 |
| LIABILITIES: | | | | | |
| Current Liabilities | $ 1,857 | $ 43,849 | $ 25,033 | $ 1,351 | $ 23,054 |
| Capital Lease Obligations | - | - | - | - | - |
| Notes and Bonds Payable | 103,186 | 135,924 | 188,105 | - | - |
| Other Long-Term Liabilities | - | 5,146 | - | - | - |
| Total Liabilities | 105,043 | 184,919 | 213,138 | 1,351 | 23,054 |
| FUND EQUITY: | | | | | |
| Contributed Capital | 386 | - | 68,013 | - | - |
| Retained Earnings | 96,740 | - | 47,869 | 14,931 | - |
| Fund Balances: | | | | | |
| Reserved | - | - | - | - | 42,639 |
| Undesignated | - | 160,728 | - | - | - |
| Total Fund Equity | 97,126 | 160,728 | 115,882 | 14,931 | 42,639 |
| Total Liabilities and Fund Equity | $ 202,169 | $ 345,647 | $ 329,020 | $ 16,282 | $ 65,693 |
| OPERATING REVENUES | $ 951 | $ 234,244 | $ 14,069 | $ 4,018 | $ 2,655 |
| OPERATING EXPENSES: | | | | | |
| Depreciation | 4,997 | 14,859 | 18 | - | - |
| Other Operating Expenses | 144 | 215,952 | 13,570 | 5,346 | - |
| Total Operating Expenses | 5,141 | 230,811 | 13,588 | 5,346 | - |
| Operating Income/Excess (Loss) | (4,190) | 3,433 | 481 | (1,328) | 2,655 |
| Non-Operating Revenues and (Expenses)/Transfers: | | | | | |
| Taxes | 25,573 | - | - | - | - |
| Other | (7,706) | 6,173 | 3,738 | 4,172 | - |
| Transfers, net | - | - | 2,821 | - | (2,821) |
| Total Non-Operating Revenues and (Expenses)/Transfers | 17,867 | 6,173 | 6,559 | 4,172 | (2,821) |
| Net Income/Change in Retained Earnings | 13,677 | 9,606 | 7,040 | 2,844 | (166) |
| Fund Equity/Balance, Beg. of Year | 83,449 | 147,552 | 98,712 | 12,087 | 42,805 |
| Additions (Deductions) to Contributed Capital | - | - | 10,130 | - | - |
| Change in Unrealized Gains/Losses on Available-for-Sale Securities | - | 3,570 | - | - | - |
| Fund Equity/Balance, End of Year | $ 97,126 | $ 160,728 | $ 115,882 | $ 14,931 | $ 42,639 |

## N. OTHER DISCLOSURES

### Primary Government

The Colorado Medical Services Foundation, a related organization, was established to support patient billing and collections for physician fees for the University of Colorado Health Sciences Center. During Fiscal Year 1996-97 the university was reimbursed $65.1 million from the foundation for salaries, fringe benefits, and related costs. In addition, the foundation reimbursed the university $663,746 for professional liability insurance and administrative costs.

The Colorado State University Foundation was established to receive, manage, and invest philanthropic gifts to Colorado State University. During Fiscal Year 1996-97, the foundation transferred $12,925,000 to the university.

The University of Colorado Foundation, Inc., an unconsolidated affiliated corporation, was established in 1967 as a separate corporation to solicit, collect, and invest donations for the university. The foundation distributed $34,918,000 to the university in Fiscal Year 1996-97.

The Fort Lewis College Foundation was established to assist in promoting, developing, and enhancing the facilities and programs of the college. During Fiscal Years 1996-97 and 1995-96 the foundation transferred $2,688,638 and $1,476,000, respectively, to the college.

The Colorado School of Mines Foundation, Inc. was established in 1928 as a separate corporation for the purpose of benefiting the School of Mines by soliciting, collecting, and investing donations. During Fiscal Years 1996-97 and 1995-96 the school received $5,750,566 and $4,200,783 respectively from the foundation.

The Colorado School of Mines Building Corporation was established in 1976 for the purpose of building a facility to house the United States Geological Survey. The Geological Survey leases the facility from the corporation. The net assets of the corporation at June 30, 1997 and June 30, 1996 were $3,573,226 and $3,347,733 respectively.

The Colorado Travel and Tourism Authority was created by statute. The Department of Local Affairs paid the authority $322,500 in Fiscal Year 1996-97 for fulfillment services, which included mailing packets, maps, and educational materials which promote tourism in Colorado. These mailings were based on written and phone requests for information.

During Fiscal Year 1996-97 the Department of Local Affairs distributed $1,361,846 to the Colorado Housing and Finance Authority, a related party, from revenues of the waste tire recycling program. In Fiscal Year 1995-96, 100 percent of the waste tire recycling revenue was distributed to the authority. However, per statute change, in Fiscal Year 1996-97 only 70 percent of the revenue was distributed.

The Great Outdoors Colorado Board (GOCO) is a constitutionally created entity whose purpose is to administer the Great Outdoors Colorado Program and Trust Fund. The program's purpose is to invest money it receives from the Colorado Lottery in the wildlife and outdoor recreation resources of the state. During Fiscal Years 1996-97 and 1995-96 the board transferred $7,495,107 and $4,688,000 respectively, to the Department of Natural Resources. At June 30, 1997, $290,991 was due the department from the board.

### Component Units

The University of Colorado Hospital Authority received net state appropriations of $7,683,000 for indigent care.

The hospital has contracted with University Physicians, Inc. (UPI), a related party, for the administration of various hospital programs and for various professional laboratory services. The hospital and UPI have also entered into other joint arrangements in furthering the missions of both organizations. Amounts of approximately $18.8 million and $21.0 million were paid for these programs during Fiscal Years 1996-97 and 1995-96, respectively.

The hospital leases certain employees to the Adult Clinical Research Center (CRC), a related party, at full cost and also provides overhead and ancillary services for CRC patients. Charges of approximately $1,439,000 and $903,000 were billed to CRC for the cost of these services. during Fiscal Years 1996-97 and 1995-96, respectively.

The hospital also leases certain employees to the Colorado Psychiatric Hospital, a related party, and provides various clinical and administrative services. Amounts for these services charged by the hospital were approximately $5.8 million and $4.8 million during Fiscal Years 1996-97 and 1995-96, respectively.

The hospital entered into certain provider and network management agreements with the TriWest Healthcare Alliance Corporation. TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniform Services. On June 27, 1996, TriWest was awarded a contract by the U.S. Department of Defense for a five year period.

As part of the agreements the hospital purchased a minority interest in TriWest for approximately $3.3 million. This was recorded as “Other Assets” and is accounted for under the cost method. The hospital agreed to secure a letter of credit for $4.6 million to cover the hospital’s share of any potential losses of TriWest. At June 30, 1997, no amounts had been drawn on the letter of credit.

UPI has also signed an agreement with the hospital to assume its network management obligations related to TriWest. As part of its negotiations, the hospital received a capital contribution of $993,750 from UPI. Under the current terms of the draft contract between the hospital and UPI, UPI will sign a $1,380,000 letter of credit, equal to 30 percent of the hospital’s letter of credit commitment to TriWest.

Chartwell Rocky Mountain Region is a Colorado general partnership between the hospital and Chartwell Home Therapies Limited Partnership, a Massachusetts limited partnership. Chartwell Rocky Mountain Region was formed to provide home infusion and respiratory services to alternate site patients. The partnership began in April 1996. Both the hospital and Chartwell Home Therapies Limited Partnership each have a 50 percent ownership in Chartwell Rocky Mountain Region. Separate financial statements of Chartwell Rocky Mountain Region are available from Chartwell Home Therapies Limited Partnership.

## NOTE IV. COMMITMENTS AND CONTINGENCIES

### A. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities are summarized as follows:

**Primary Government**

(Amounts in Thousands)

| | Governmental Fund Types | Proprietary Fund Types | Trust & Agency Funds | Long-Term Debt Accounts | College & University Funds | Totals |
|---|---|---|---|---|---|---|
| Beginning Balance, July 1, 1996 | $ 4,697 | $ 24,536 | $ 1,210,740 | $493,088 | $524,320 | $2,257,381 |
| Obligations Issued or Assumed | - | - | - | - | 52,535 | 52,535 |
| Obligations Retired or Reclassified | - | (85) | - | - | (30,167) | (30,252) |
| Increase (Decrease) in Deposits Held | (456) | (185) | (32,616) | - | 7,079 | (26,178) |
| Increase (Decrease) in Capital Leases | - | 1,248 | 78 | (19,332) | (118) | (18,124) |
| Increase (Decrease) in Comp. Absences | - | 230 | 10 | 5,268 | 7,603 | 13,111 |
| Increase (Decrease) in Deferred Comp. | - | - | 35,468 | - | - | 35,468 |
| Increase (Decrease) in Other Liabilities | | | | | | |
| Claimant Benefits | - | - | (84) | - | - | (84) |
| Tax Refunds Payable | - | - | 216 | - | - | 216 |
| Treasury Escheats | - | - | 68 | - | - | 68 |
| Risk Management Claims | - | - | - | 9,471 | (7,053) | 2,418 |
| State Fair Authority | - | 2,644 | - | - | - | 2,644 |
| Unpaid Insurance Claims | - | (533) | - | (424) | - | (957) |
| Expired Warrants Liability | - | 4 | - | - | - | 4 |
| Labor Fund Claims | - | - | - | (90) | - | (90) |
| Highway Construction Advances | - | - | - | 7,434 | - | 7,434 |
| Other | 2 | - | - | (138) | (1,559) | (1,695) |
| Ending Balance June 30, 1997 | $ 4,243 | $ 27,859 | $ 1,213,880 | $495,277 | $552,640 | $2,293,899 |

**Component Units**

(Amounts in Thousands)

| | Denver Metropolitan Major League Baseball Stadium District | University of Colorado Hospital Authority | Colorado Water Resources and Power Development Authority | Colorado Uninsurable Health Insurance Plan | Totals |
|---|---|---|---|---|---|
| Beginning Balance | $ 118,110 | $ 145,261 | $ 182,572 | $ - | $445,943 |
| Obligations Issued | - | - | 43,085 | - | 43,085 |
| Obligations Retired or Reclassified | (8,133) | (1,958) | (37,552) | - | (47,643) |
| Increase (Decrease) in Capital Leases | (6,791) | - | - | - | (6,791) |
| Increase (Decrease) in Comp. Absences | - | (301) | - | - | (301) |
| Increase (Decrease) in Other Liabilities | - | (1,932) | - | - | (1,932) |
| Ending Balance | $ 103,186 | $ 141,070 | $ 188,105 | $ - | $432,361 |

## B. LEASE COMMITMENTS

### Primary Government

The state may enter into lease or rental agreements for buildings or equipment. All leases contain clauses indicating that continuation of the lease is subject to funding by the legislature. It is reasonably assured that most of these leases will be renewed in the normal course of business. They are therefore treated as noncancelable for financial reporting purposes.

At June 30, 1997, the state had $3.5 million of land, $263.2 million of buildings, and $86.5 million of equipment under capital leases. The state also had $312,132 in minimum sublease rentals and no contingent rentals outstanding.

Colorado State University Research Foundation, a related party, is a not-for-profit Colorado corporation established to aid and assist the three universities governed by the State Board of Agriculture in their research and educational efforts. The support provided by the foundation to the universities includes patent and licensing management, equipment leasing, municipal lease administration, debt financing, and land acquisition, development and management. Colorado State University System is sub-leasing space from the foundation. The total obligation is $2,256,000, with average annual lease payments of $376,000. Colorado State University is also sub-leasing space from the foundation. The total obligation is $3,640,000, with average annual lease payments of $607,000.

The university is also leasing equipment from the foundation and has a total lease obligation of $454,000 with terms ranging from one to six years.

The state is obligated under certain leases which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. Therefore, the results of the lease agreements are not reflected in the balance sheets of the funds or account groups.

For the Fiscal Year 1996-97 the state had building and land rental expenditures of $25.0 million and equipment and vehicle rental expenditures of $32.6 million paid to non-state agencies.

Future minimum payments at June 30, 1997, for existing leases were as follows:

(Amounts in Thousands)

| | | | Capital Leases | | | | |
|---|---|---|---|---|---|---|---|
| | Fiscal Year | Operating Leases | Enterprise Funds | Internal Service Funds | Trust & Agency Funds | General Long-Term Debt | College & University Funds |
| | 1998 | $ 29,150 | $ 453 | $ 8,072 | $ 38 | $ 33,073 | $ 16,938 |
| | 1999 | 24,138 | 453 | 7,476 | 36 | 16,628 | 15,876 |
| | 2000 | 19,881 | 453 | 6,432 | 36 | 5,551 | 15,271 |
| | 2001 | 15,453 | 333 | 4,491 | 17 | 5,531 | 15,217 |
| | 2002 | 13,286 | - | 2,644 | 5 | 5,463 | 9,577 |
| | Thereafter | 22,206 | - | 493 | - | 19,098 | 55,053 |
| Total Minimum Lease Payments | | $ 124,114 | 1,692 | 29,608 | 132 | 85,344 | 127,932 |
| Less: Imputed Interest | | | (380) | (3,211) | (34) | (16,324) | (34,451) |
| Present Value of Minimum Lease Payments | | | 1,312 | 26,397 | 98 | 69,020 | 93,481 |
| Less: Current Portion | | | (290) | (6,804) | - | - | (9,966) |
| Total Capital Lease Obligations | | | $ 1,022 | $ 19,593 | $ 98 | $ 69,020 | $ 83,515 |

**Component Units**

The University of Colorado Hospital Authority leases certain equipment under non-cancelable operating leases. Rental expense for operating leases approximated $6,540,000 and $6,257,000 for Fiscal Years 1996-97 and 1995-96, respectively, for the hospital. Future minimum lease payments for these leases at June 30, 1997 are:

| Fiscal Year | Amounts in Thousands |
|---|---|
| 1998 | $ 2,525 |
| 1999 | 1,297 |
| 2000 | 1,084 |
| 2001 | 716 |
| 2002 | 559 |
| Thereafter | 9,378 |
| Total Minimum Obligations | $15,559 |

The Colorado Water Resources and Power Development Authority leases office facilities under an operating lease which expires December 31, 1998. Total rental expense for the year ended December 31, 1996, was $56,882. The future minimum annual rental commitments under this lease are $56,882 and $61,235 for 1997 and 1998 respectively.

**C. NOTES AND BONDS PAYABLE**

**Primary Government**

Many institutions of higher education and the state nursing homes have issued bonds and notes for the purchase of equipment and construction of facilities. Specific user revenues are pledged for the payments of interest and future retirement of the obligations. During Fiscal Year 1996-97, the state had $108.4 million of available net revenue after operating expenses to meet the $31.2 million of debt service requirement related to these bonds. The state is not aware of any violations of any note or bond covenants by itself or any of its institutions at June 30, 1997, or subsequent to that date.

The state recorded $50.8 million of interest costs of which approximately $4.6 million was for certificates of participation for capital financing, $20.3 million was for short-term borrowings by the treasurer, $8.0 million was for the Guaranteed Student Loan Program, $16.0 million was for debt issued by various institutions of higher education, and $1.9 million of operating interest.

Annual maturities of notes and bonds payable, including $5.2 million classified as other current liabilities and excluding $2.8 million of unamortized bond discounts and premiums, are as follows:

(Amounts in Thousands)

| Fiscal Year | Revenue Bonds | Anticipation Warrants | Mortgages Payable | Installment Notes | Total |
|---|---|---|---|---|---|
| 1998 | $ 33,924 | $ 125 | $ 50 | $ 2,763 | $ 36,862 |
| 1999 | 33,410 | 123 | 50 | 10 | 33,593 |
| 2000 | 33,394 | 126 | 50 | 10 | 33,580 |
| 2001 | 31,549 | 128 | 50 | 10 | 31,737 |
| 2002 | 30,623 | 130 | 50 | 8 | 30,811 |
| 2003-2007 | 146,414 | - | 250 | - | 146,664 |
| 2008-2012 | 129,220 | - | 100 | - | 129,320 |
| 2013-2017 | 69,347 | - | - | - | 69,347 |
| 2018-2022 | 30,027 | - | - | - | 30,027 |
| 2023-2027 | 5,664 | - | - | - | 5,664 |
| Total Future Payments | 543,572 | 632 | 600 | 2,801 | 547,605 |
| Less: Imputed Interest | (208,622) | (127) | (157) | - | (208,906) |
| Total Principal Payments | $ 334,950 | $ 505 | $ 443 | $ 2,801 | $ 338,699 |

**Component Units**

The Denver Metropolitan Major League Baseball Stadium District's bonds are secured by pledged revenues consisting principally of the net proceeds derived by the district from the levy of a one-tenth of one percent sales tax upon all taxable retail sales within the six county area comprising the jurisdiction of the district.

The outstanding bond principal and interest payments are also unconditionally and irrevocably guaranteed under a noncancelable insurance policy issued by Financial Guaranty Insurance Company. The company has a lien on the district's assets, subordinate to that granted to the bondholders, to secure repayment of amounts paid and expenses incurred by it, if any, under the policy.

All of the Water Resources and Power Development Authority's Small Water Resources Program bonds and the Series 1989A and Series 1990A Clean Water Revenue Bonds and Series 1989A and Series 1990A State Match Revenue Bonds are insured as to payment of principal and interest by Financial Guaranty Insurance Company. The Clean Water Revenue Bonds, Series 1992A are insured as to payment of principal and interest by Financial Security Assurance, Inc. The Wastewater Revolving Fund Refunding Revenue Bonds, Series 1996A are insured as to payment of principal and interest by AMBAC Indemnity Corporation.

The debt service requirements to maturity for the Water Resources and Power Development Authority and the Baseball Stadium District at December 31, 1996 are:

(Amounts in Thousands)

| Year | Denver Metropolitan Major League Baseball Stadium District | Colorado Water Resources and Power Development Authority |
|---|---|---|
| 1997 | $ 15,398 | $ 19,844 |
| 1998 | 15,397 | 20,009 |
| 1999 | 15,400 | 20,189 |
| 2000 | 15,398 | 20,008 |
| 2001 | 15,400 | 19,812 |
| Thereafter | 64,171 | 213,095 |
| Total Future Payments | 141,164 | 312,957 |
| Less: Imputed Interest | (28,364) | (114,687) |
| Total Principal Payments | $ 112,800 | $ 198,270 |

During Fiscal Years 1996-97 and 1995-96 the University of Colorado Hospital Authority met all the financial ratio requirements of its bond indenture. The aggregate maturities of long-term debt for University Hospital at June 30, 1997 are:

(Amounts in Thousands)

| Year | |
|---|---|
| 1998 | $ 2,027 |
| 1999 | 2,410 |
| 2000 | 2,615 |
| 2001 | 2,730 |
| 2002 | 2,850 |
| Thereafter | 126,165 |
| Total Long-Term Debt Payments | 138,797 |
| Unamortized Discount | (881) |
| Total Carrying Amount of Long-Term Debt | $ 137,916 |

Cash paid for interest by the hospital in Fiscal Years 1996-97 and 1995-96 approximated $8,174,000 and $7,380,000, respectively. Total interest cost incurred in Fiscal Year 1996-97 amounted to $8,163,000, of which $868,000 was offset by investment income from the unexpended bond funds. Total interest cost in Fiscal Year 1995-96 was $7,384,000, of which $6,062,000, net of interest income of $2,270,000, was capitalized in property and equipment.

## D. OTHER LONG-TERM LIABILITIES

The following obligations, listed by fund type, represent amounts owed by the state at June 30, 1997, which are classified as other long-term liabilities on the balance sheet:

(Amounts in Thousands)

| | General Fund | Proprietary Funds | Trust & Agency Funds | Long-Term Debt Accounts | College & University Funds | Totals |
|---|---|---|---|---|---|---|
| Claimant Benefits | $ - | $ - | $ 29 | $ - | $ - | $ 29 |
| Tax Refunds Payable | - | - | 8,425 | - | - | 8,425 |
| Treasury Escheats | - | - | 1,252 | - | - | 1,252 |
| Risk Management Claims | - | - | - | 98,263 | 32,705 | 130,968 |
| State Fair Authority | - | 2,644 | - | - | - | 2,644 |
| Unpaid Insurance Claims | - | 168 | - | 1,951 | - | 2,119 |
| Expired Warrant Liability | - | 102 | - | - | - | 102 |
| Labor Fund Claims | - | - | - | 207,460 | - | 207,460 |
| Highway Construction Advances | - | - | - | 16,711 | - | 16,711 |
| Other | 286 | - | - | - | 1,575 | 1,861 |
| TOTAL | $ 286 | $ 2,914 | $ 9,706 | $ 324,385 | $ 34,280 | $ 371,571 |

Tax Refunds Payable in the fiduciary funds are bonds posted by taxpayers concerning the collections of gross-ton-mile and fuel tax, and the deferment of delinquent severance taxes estimated to be collected after more than one year.

The Risk Management Claims in the Long-Term Debt Account Group are the actuarially determined amounts in excess of the current liability in the General Fund related to self-insurance of general liability. It also represents expected claims under the prior Paid Loss/ Retro Plan and the state's current self-insurance plan for workers' compensation. The Risk Management Claims in the College and University Funds are for the University of Colorado's self-insurance program for general liability, property, workers' compensation, medical benefits, and medical malpractice.

The Unpaid Insurance Claims in the Long-Term Debt Account Group are for the Department of Human Services workers' compensation self-insurance. This plan is currently managed by a third party claims administrator.

Expired Warrants Liability is for warrants issued by the Lottery Fund that have expired but for which the Lottery would be liable if the payee submitted a claim for reissue.

The amount shown as Other in the Long-Term Debt Account Group is primarily the amount owed to local governments for funds advanced to the state for highway construction. The portion of the advance accrued in the current year was recorded as an advance from public or private sources in the other financing section of the *Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances, All Governmental Fund Types And Expendable Trust Funds.*

Long-term liabilities against the Labor Fund are recorded in the General Long-Term Debt Account Group. Estimated future payments are actuarially determined. Benefits are expected to be funded through future revenues from a special tax on workers' compensation premiums, court awards and interest income.

## E. DEFEASED DEBT

### Primary Government

Debt is defeased by depositing in escrow accounts an amount sufficient, together with known minimum investment yields, to pay principal, interest, and any redemption premium on the debt to be defeased. During Fiscal Year 1996-97, debt was defeased in the College and University Plant Funds.

During Fiscal Year 1996-97 the University of Colorado advanced refunded $42,900,000 of debt by depositing with an escrow agent $40,375,000 of proceeds from new debt. The retired debt consisted of Telecommunications Certificates of Participation, Series 1986 for $7,610,000, and Co-Generation Certificates of Participation, Series 1990D for $35,290,000. The new debt had interest rates ranging from 4.5 percent to 6.0 percent, and a term of 4 to 9 years. The old debt had interest rates from 6.7 percent to 8.0 percent, and terms of 4 years and 9 years respectively. The university recorded an accounting loss of $3,401,067, an economic gain of $1,743,604, and a decrease of $5,466,237 in the cash flows necessary to service the debt to maturity.

During Fiscal Year 1996-97 Colorado State University advanced refunded $12,195,000 of debt by depositing with an escrow agent $12,672,114 of proceeds from a portion of their Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1996. The retired debt consisted of Auxiliary Facilities Refunding and Improvement Bonds, Series 1986. The new debt had interest rates ranging from 4.4 percent to 5.6 percent, and a term of 11 years. The old debt had interest rates from 7.1 percent to 7.8 percent, and a term of 10.6 years. The university recorded an accounting loss of $164,160, an economic gain of $1,046,072, and a decrease of $1,823,756 in the cash flows necessary to service the debt to maturity.

The balances of outstanding debt at June 30, 1997, which have been placed in escrow type accounts with paying agents for the General Long-Term Account Group are $15,270,000 for the Department of Personnel. The balances which have been placed in escrow type accounts with paying agents for the college and university funds are as follows:

(Amounts in Thousands)

| | |
|---|---|
| University of Colorado | $92,140 |
| Auraria Higher Education Center | 36,860 |
| Colorado State University | 14,008 |
| Western State College | 12,645 |
| University of Northern Colorado | 10,500 |
| Fort Lewis College | 4,946 |
| School of Mines | 4,750 |
| Mesa State College | 2,505 |
| Adams State College | 1,420 |
| Arapahoe Community College | 420 |
| University of Southern Colorado | 175 |
| TOTAL | $180,369 |

### Component Units

The Denver Metropolitan Major League Baseball Stadium District had total debt service, including principal and interest, remaining for its defeased debt of $124,593,072 at December 31, 1996, assuming no early redemption.

On December 17, 1996, the Colorado Water Resources and Power Development Authority advance refunded and defeased $27,900,000 of their 1989A, 1990A, 1991A, and 1991B Clean Water Revenue Bonds. They issued $28,950,000 Wastewater Revolving Fund Refunding Revenue Bonds 1996 Series A. These carried an average interest rate of 5.54 percent plus a premium of $1,800,179. The authority reduced its aggregate debt service payments by almost $2,548,000 and obtained an economic gain of $1,795,556. The authority had $43,295,000 of bonds previously issued but defeased at December 31, 1996.

## F. RISK MANAGEMENT

### Primary Government

The state currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, worker's compensation, and medical claims. The Risk Management Fund is a restricted General Fund used for claims adjustment, investigation, defense, and authorization for the settlement and payment of claims or judgments against the state except for employee medical claims. The State Employees and Officials Insurance Fund is an Internal Service Fund established for the purpose of risk financing employee's and official's medical claims. Property claims are not self-insured, rather the state has purchased insurance.

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Worker's Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related disabilities. The state utilizes the services of the Colorado Compensation Insurance Authority, a related party, to administer its plan. The state reimburses the Authority for the current cost of claims paid and related administrative expenses.

Prior to October 1, 1996, the Regents of the University of Colorado participated in the University of Colorado Insurance Pool, a public entity self-insurance pool. After that date the university became self-insured for worker's compensation, auto, general and property liability, and official's and employee's medical claims. The university's medical claims are handled by a third party through a contractual agreement. The university has also purchased stop-loss insurance for individual medical claims in excess of $500,000.

The University of Colorado Health Sciences Center's Housestaff Health Benefits Plan is a comprehensive self-insurance health benefits program for physicians in training at the Health Sciences Center. The Center also self-insures its faculty, staff and students for medical malpractice through the University of Colorado Self Insurance Risk Management Trust. Excess risk exposure is handled through the purchase of stop-loss insurance for individual medical claims in excess of $80,000 per year and an aggregate of $2,578,789 for the entire plan. The discounted liability for malpractice is determined annually by an actuarial study.

All funds and agencies of the state, with the exception of the public authorities and the University of Colorado, participate in the Risk Management Fund. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The Department of Human Services uses a third party administrator to manage those claims related to the Human Services Workers' Compensation Plan. However, new claims are administered by Risk Management and paid from the Risk Management Workers' Compensation Plan.

During Fiscal Years 1996-97, 1995-96, and 1994-95 medical claims against the State Employees and Officials Insurance Fund exceeded the premiums collected. This resulted in decreases in the medical reserve fund equity of approximately $6.5 million, $2.1 million, and $3.0 million, respectively. The fund includes several medical plan options ranging from provider of choice to managed care.

The fund also provides an employer paid short-term disability plan. Calendar year 1997 is the first year that the premiums charged by the private insurance company have exceeded the state's short-term disability program funding level. Currently, the premium stabilization reserve is covering the shortfall.

There were no significant reductions or changes in insurance coverage from the prior year. With the exception of the short-term disability program of the State Employees and Officials Insurance Fund settlements did not exceed insurance coverage in any of the past three fiscal years.

Changes in the balances of claims liabilities were as follows:

Amounts in Thousands

| Fiscal Year | Liability at July 1 | Current Year Claims and Changes in Estimates | Claim Payments | Liability at June 30 |
|---|---|---|---|---|
| Risk Management: | | | | |
| Liability Fund | | | | |
| 1996-97 | $ 20,676 | $ 3,858 | $ 3,410 | $ 21,124 |
| 1995-96 | 19,764 | 3,699 | 2,787 | 20,676 |
| 1994-95 | 13,128 | 9,428 | 2,792 | 19,764 |
| Workers' Compensation | | | | |
| 1996-97 | 83,202 | 37,980 | 25,433 | 95,749 |
| 1995-96 | 84,612 | 19,664 | 21,074 | 83,202 |
| 1994-95 | 52,806 | 60,027 | 28,221 | 84,612 |
| Employee's and Officials Insurance Fund: | | | | |
| 1996-97 | 9,200 | 63,701 | 62,616 | 10,285 |
| 1995-96 | 9,160 | 56,753 | 56,713 | 9,200 |
| 1994-95 | 7,560 | 53,802 | 52,202 | 9,160 |
| University of Colorado: | | | | |
| General Liability, Property, and Workers' Compensation | | | | |
| 1996-97 | 18,366 | 7,441 | 6,478 | 19,329 |
| 1995-96 | 16,365 | 9,591 | 7,590 | 18,366 |
| 1994-95 | 13,952 | 8,564 | 6,151 | 16,365 |
| Medical Benefits Plan | | | | |
| 1996-97 | 13,492 | 26,447 | 34,178 | 5,761 |
| 1995-96 | 15,008 | 22,611 | 24,127 | 13,492 |
| 1994-95 | 12,495 | 25,303 | 22,790 | 15,008 |
| Univ. of Colorado Health Sciences Center: | | | | |
| Medical Malpractice | | | | |
| 1996-97 | 7,427 | 878 | 1,216 | 7,089 |
| 1995-96 | 8,478 | (166) | 885 | 7,427 |
| 1994-95 | 10,256 | (923) | 855 | 8,478 |
| Housestaff Health Benefits | | | | |
| 1996-97 | 473 | 2,544 | 2,491 | 526 |
| 1995-96 | 548 | 2,193 | 2,268 | 473 |
| 1994-95 | 534 | 2,757 | 2,743 | 548 |
| Department of Human Services: | | | | |
| Workers' Compensation | | | | |
| 1996-97 | 2,375 | - | 424 | 1,951 |
| 1995-96 | 2,918 | - | 543 | 2,375 |
| 1994-95 | 3,507 | - | 589 | 2,918 |

**Component Units**

As of October 1, 1989, the University of Colorado Hospital Authority began self-insuring against malpractice claims in excess of coverage provided by the University of Colorado Self Insurance Risk Management Trust in which the hospital participates. The hospital has established an additional self-insurance trust fund for uninsured losses, funding of which is determined by an independent actuarial computation. At June 30, 1997 and 1996, the hospital's trust fund had investments of $417,000 and $440,000, respectively. The charge to expense for actual or potential self-insurance claims related to the additional self-insurance trust fund was zero during the years ended June 30, 1997 and 1996.

The hospital purchased insurance coverage from the University of Colorado Insurance Pool (UCIP) for workers' compensation, property, crime, auto and general liability until September 30, 1996. Beginning October 1, 1996 the hospital began using commercial insurance carriers instead of UCIP. Amounts paid for such coverage were approximately $777,000 and $1,905,000 during Fiscal Years 1996-97 and 1995-96, respectively.

## G. CONTINGENCIES

**Primary Government**

Most claims against the state are limited by the Colorado Governmental Immunity Act which sets upper limits of state liability at $150,000 per person and $400,000 per occurrence. Judgments awarded against the state for which there is no insurance coverage or which are not payable from the Risk Management Fund ordinarily require a legislative appropriation before they may be paid.

Numerous court cases are pending in which the plaintiffs allege that the state has deprived persons of their civil rights or inadequately compensated them for their property. In the aggregate, the monetary damages (actual, punitive, and attorney's fees) claimed in the civil rights cases would exceed the insurance coverage available by a material amount. The state believes it is highly unlikely that there will be actual awards of judgments in material amounts.

The state is a defendant in numerous lawsuits involving claims of inadequate, negligent, or unconstitutional treatment of prisoners and mental patients. In some of these suits, plaintiffs are seeking or have obtained certification as a class for a class action suit. Most of these cases seek actual damages that are not material but include request for punitive damages that may be material. There is also the potential that the courts may rule that the current conditions of confinement are unconstitutional.

The state is defendant in lawsuits by employees accusing the state of various infractions of law or contract. These include claims related to age and sex discrimination, wrongful termination, contractual agreements for paying of salaries based on parity and equity, and overtime compensation under the Federal Fair Labor Standards Act. The state does not believe that any of these cases are material to its financial operations.

Many state agencies enter into various grant and contract agreements with the federal government and other parties. These agreements generally provide for audits of the transactions pertaining to the agreements, with the state being liable to those parties for any disallowed expenditures. The state is contesting the disallowances related to such audits, and the outcome is uncertain at this time. The Department of Human Services and the Department of Health Care Policy and Financing have several such claims filed against them. These claims are at various levels of adjudication or settlement negotiations. At June 30, 1997, these claims were in excess of $19 million.

The Colorado Student Loan Program, in the event of adverse loss experience, could be liable for approximately 22 percent of the outstanding balance of loans in repayment status, however, the probability of a material loss is remote.

The U.S. Environmental Protection Agency has, in several instances, either sued the state or given notice of the state's potential responsibility under CERCLA. This includes the School of Mines and Colorado State University, as well as other non-state parties. Issues have arisen because of costs associated with the cleanup of hazardous substances at several sites owned by the state. The governor, the Department of Public Health and Environment, the School of Mines, and the Office of Attorney General have entered into an agreement to manage the problem on a statewide level.

Several corporations have filed administrative income tax refund claims for taxes previously paid because other corporations have sued another state with similar tax statutes. The U.S. Supreme Court rejected that claim on jurisdictional grounds in May 1997. At this time Colorado has not been sued and if sued will vigorously defend its position. If the corporations were to prevail in court, which is remote, the state would have to refund an additional $11.2 million of taxes already collected.

At June 30, 1997, the Lottery Division of the Department of Revenue had outstanding annuities of approximately $681.0 million in the name of lottery or lotto prize winners. The probability that any of the sellers of these annuity contracts will default and that the state will have to pay the annuity itself is remote.

Various notes and bonds have been issued by state school districts which may impact the state. Colorado statutes provide that if a district indicates that it will not make the payment to bondholders by the date on which it is due, the state treasurer shall forward the amount necessary to make the payment to the paying agent and shall withhold state equalization payments to the defaulting school district for a period up to 12 months to cover the state's loss. Currently, notes or bonds valued at over $2.5 billion are outstanding. Of this amount, $1.2 billion is covered by private insurance.

The state's Department of Transportation is in the process of remediating its underground fuel storage tanks. It has been estimated by the department that its future costs will be approximately $20 million and that the process will not be completed until the year 2005.

The state's Underground Storage Tank Advisory Committee has rejected the reimbursement for the clean-up of petroleum leaks discovered prior to December 22, 1988. Diamond Shamrock has sued the state for approximately $3.5 million of such unreimbursed costs. The state received an adverse ruling from the district court and has appealed. Whatever the outcome, the state cannot be held liable for any amount of money over what is available in the Underground Storage Tank Fund.

The State of Kansas has sued the state in the U.S. Supreme Court for alleged violations of the Arkansas River Compact. The case was bifurcated into a liability and a remedy phase. The Supreme Court ruled in favor of Kansas in one of its three claims. The case is now before a special master to decide the appropriate remedy. There has been a quantification of the amount of injury, in water, through 1994. Colorado and Kansas disagree about whether Kansas should be repaid in money or water. However, the state believes that the liability will not exceed $50 million even though Kansas has not claimed a specific dollar amount.

The state has been sued in connection with a land transfer from the Department of Natural Resources to the Department of Corrections for expansion of the Rifle Correctional Center. The plaintiffs claim that county zoning and planning review is required, the Department of Natural Resources has not complied with statutory requirements in connection with the transfer, and that a fishing stream protection review by the Wildlife Commission is also required. The state has filed motions to dismiss which are pending.

The state believes it has a good chance of prevailing in these cases, but the ultimate outcome cannot presently be determined. No provision for any liability that may result has been made in the financial statements.

**NOTE V. PENSION SYSTEM AND OBLIGATIONS**

## A. PLAN DESCRIPTION

Virtually all State of Colorado employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability.

Administration of the Plan

The plan, a cost-sharing multiple employer plan, is administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931, and includes the State Division Trust Fund (established in 1931), the School Division and the Municipal Division Trust Funds (both established in 1944), and the Judicial Division Trust Fund (established in 1949). The authority to establish or amend plan benefits is retained by the General Assembly in accordance with Title 24, Article 51 of the Colorado Revised Statutes (CRS).

The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

Service Requirement and Termination

Employees who terminate before meeting the required years of service are refunded their contributions made to the plan plus interest. Employees terminating after meeting the service requirements may, if they desire, remain in the plan until eligible for retirement. Those withdrawing from the plan receive their contributions, interest on their contributions, plus an additional 25 percent of their contribution and interest. This terminates their individual accounts. The interest rate paid is set at 80 percent of the PERA actuarial investment assumption rate.

Defined Retirement Benefits

Plan members are eligible for retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. State troopers and Colorado Bureau of Investigation (CBI) officers are eligible for retirement benefits at age 50 with 25 years of service.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Service retirement benefits during Fiscal Year 1996-97, were calculated at 2.5 percent of HAS for each year of service up to 20 years and 1.5 percent for each year of service over 20 years. (See Note VI-A, Pension Plan Changes for the subsequent event which changed this calculation effective July 1, 1997.)

Reduced service retirement benefits are available at age 55 with 20 years of service, or at age 60 with five years of service credit. The benefit is calculated the same as a service retirement benefit, then reduced by 0.333 percent for each month before the eligible date for the full service retirement. Members are also eligible to receive reduced service retirement benefits at age 50 with 25 years of service with a greater benefit reduction.

Money Purchase Retirement Benefit

A retiring member may elect to withdraw their PERA account and receive an additional matching amount equal to 50 percent of their contribution plus interest, or receive a lifetime benefit based on the amount the member could withdraw. The withdrawal or the lifetime benefit is in lieu of the defined benefit.

Disability and Survivor Benefits

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled.

If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) are entitled to monthly benefit payments. If there are no eligible children, the member's spouse is paid the monthly benefit, and absent an eligible spouse, the financially dependent parents receive a survivor benefit.

**B. FUNDING POLICY**

Members and employers are required to contribute to PERA at a rate set by statute. The contribution requirements of plan members and affiliated employers are established under Title 24, Article 51, Part 4 of the CRS as amended. Members are required to contribute 8 percent of their gross salary, except for state troopers and CBI officers, who contribute 11.5 percent. Annual gross covered wages subject to PERA are gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

The state contribution rate from July 1, 1993 to June 30, 1997 was 10.8 percent (12.4 percent for state troopers and CBI officers) of the employee's gross covered wages. The state paid $169.4 million, $162.5 million, and $158.1 million in Fiscal Years 1996-97, 1995-96 and 1994-95, respectively. These amounts were equal to the required contributions for those years.

**C. OTHER RETIREMENT PLANS**

**Primary Government**

Some employees of various institutions of higher education may be covered under other retirement plans. Presidents, deans, professors, and instructors in state educational institutions are enrolled in defined benefit plans such as the Teachers Insurance and Annuity Association, the Variable Annuity Insurance Corporation, or other similar plans.

Faculty members at the University of Colorado are also under Social Security. Faculty at Colorado State University were covered exclusively by PERA until May 1993. Faculty hired after that time are covered by one of several defined contribution plans. Faculty previously covered by PERA had the choice of converting entirely to the defined contribution plan or remaining in PERA for their service till May 1993, with service after that time credited to the defined contribution plan.

The state made contributions to other pension plans of $24.0 million and $22.6 million during Fiscal Year 1996-97, and Fiscal Year 1995-96, respectively. In addition, the state paid $31.4 million and $29.8 million in FICA or Medicare taxes on employees wages during Fiscal Year 1996-97, and Fiscal Year 1995-96, respectively.

PERA also offers a voluntary 401(k) plan entirely separate from the defined benefit plan. PERA members may make contributions of up to 18 percent of their annual gross salary, to a maximum of $9,500. Contributions and earnings are tax deferred. On December 31, 1996 the plan had net assets of $186.5 million and 13,064 accounts.

The Fire and Police Pension Association, a related party, was established to insure the financial viability of local government pension plans for police and firefighters. In Fiscal Years 1996-97 and 1995-96, the state treasurer transferred $70.7 million and $52.1 million to the association to enhance its actuarial soundness. This included the state's cost for the accidental death and disability insurance policy the Association provides to volunteer firefighters.

**Component Units**

Employees of the Colorado Uninsurable Health Insurance Plan, and the Colorado Water Resources and Power Development Authority are covered under the State Division of PERA.

The University of Colorado Hospital Authority participates in two retirement plans, which cover substantially all of its employees. In March 1997, the Governmental Accounting Standards Board issued GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, which establishes standards for the measurement, recognition, and display of pension expenditures/expenses and related liabilities, assets and disclosures. This statement is effective for fiscal years beginning after June 15, 1997. Although early adoption is encouraged, the hospital's management has chosen not to adopt the pronouncement earlier than the implementation date. The hospital has not estimated the impact the pronouncement will have; however, the impact is not expected to be significant.

The hospital maintained a noncontributory defined benefit pension plan for its employees through March 1995. Under this plan, contributions credited to each covered employee's account were based on a percentage of compensation earned by the employee. Vesting under this plan is based on length of service. Benefits are payable as a lump sum upon retirement or separation or under several annuity options upon retirement. As of March 31, 1995, a final contribution was credited to the accounts of all covered employees of record on that date and this plan was frozen. Employee accounts continue to accrue interest based on the Thirty-Year Treasury Constant Maturities rate, and covered employees not fully vested in this plan will continue to earn credit toward vesting.

As of April 1, 1995, the hospital amended its retirement plan based on its ability to withdraw from the Old Age, Survivors, and Disability Insurance (OASDI) component of the Federal Insurance Contributions Act (FICA) by virtue of its operation under legislatively granted state authority. The hospital and its employees still contribute to and participate in the Medicare component of FICA. The hospital's amended plan is composed of three distinct components: a Basic Pension Plan, an Investment Account, and a Matching Account.

The Basic Pension Plan is a defined benefit plan with benefits payable based on length of service and average compensation earned by the employee during the five most highly compensated calendar years of service after 1994. Vesting under this component is based on length of service. The hospital's funding policy is to contribute amounts at least equal to the minimum funding requirements of ERISA.

The hospital made contributions of $5,800,000 and $6,100,000 to its defined benefit plans in Fiscal Years 1996-97 and 1995-96, respectively. Annual cost is determined using the projected unit credit actuarial method. Plan assets at fair value were $48,206,000 and $36,485,000 a June 30, 1997 and 1996, respectively. The projected benefit obligation was $47,013,000 and $38,395,000 at June 30, 1997 and 1996, respectively.

The Investment Account is a qualified defined contribution retirement plan under the provisions of Internal Revenue Code (IRC) Section 401(a). Employees are required to contribute 6.2% of their gross compensation, which is equivalent to what their OASDI contributions were under FICA participation. Employees are always fully vested in this component of the plan. Total compensation covered in this plan for the years ended June 30, 1997 and 1996 was approximately $77,318,000 and $78,000,000, respectively. The hospital is required by law to provide an additional make-up contribution for certain part-time employees equal to 1.3% of their compensation until they are fully vested in the Basic Pension Plan. Since April 1, 1995, make-up contributions made by the hospital have approximated $98,000.

The Matching Account is a qualified tax-deferred annuity plan under the provisions of IRC Section 403(b). Employees are eligible to contribute a percentage of their gross compensation, tax-deferred up to legal limitations established under the IRC. In addition, the hospital matches employee contributions 100% on the first 3% of gross compensation contributed. Employees are always vested 100% in their contributions; however, the hospital's matching contributions are subject to a five year vesting schedule. The hospital's matching contributions for Fiscal Years 1996-97 and 1995-96 were $1,600,000 and $1,800,000, respectively.

The hospital has made contributions to PERA in accordance with actuarially determined funding amounts for their employees who are still state employees. Pension expense related to state employees was $353,000 and $433,000 for Fiscal Years 1996-97 and 1995-96, respectively.

Transfers from PERA to the hospital's pension plan, for previous state employees who have transferred their benefits to the hospital's pension plan, amounted to $0 and $100,000 for the years ended June 30, 1997 and 1996, respectively.

## D. EMPLOYEE DEFERRED COMPENSATION

The state initiated a deferred compensation (457) plan for state employees in 1981. This plan has a third party administrator, and all costs of administration and funding are borne by the plan participants. Investments and accumulated earnings of the plan at June 30, 1997, and June 30, 1996, totaled $245.7 million and $210.2 million respectively. The state has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

## E. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During 1996, the subsidy was $115.00 for those with 20 years of service credit and reduced by $5.75 for each year under 20.

The Health Care Fund is maintained by a contribution of 0.8 percent of covered salary. The state paid $12.5 million, $12.0 million, and $11.7 million in Fiscal Years 1996-97, 1995-96 and 1994-95, respectively. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. During 1996 there were 28,575 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group decreasing-term life insurance plans offered by Prudential and Rocky Mountain Life. Active members may join one or both plans, and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction.

Other Programs

Separate post-retirement health care and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees. The state has no liability for any of these post-retirement health care and life insurance plans.

## NOTE VI. SUBSEQUENT EVENTS

### A. PENSION PLAN CHANGES

On May 6, 1997, the governor signed into law House Bill 97-1082. This legislation combines the State Division Trust Fund and the School Division Trust Fund of the Public Employees Retirement Association into one combined fund on July 1, 1997. This legislation also changed the benefit formula for each year of service over 20 years from 1.5 percent of Highest Average Salary to 2.5 percent with a 100 percent maximum. All current benefit recipients with more that 20 years of service will have their benefit recalculated. Benefit payments dated July 31, 1997, and later will reflect this new calculation.

The employer's contribution rate was also reduced by 0.1 percent effective July 1, 1997.

### B. NOTE ISSUANCE

On July 1, 1997 the state treasurer issued $200 million of Tax Revenue Anticipation Notes. The notes are to be repaid in June 1998.

In August 1997, the Colorado School of Mines issued Series 1997A and Series 1997B Auxiliary Facilities Enterprise Revenue serial obligations bonds in the amount of $5,890,000 maturing in Fiscal Years 1998 to 2018.

Subsequent to June 30, 1997, the University of Colorado issued additional Enterprise System Refunding and Improvement Revenue Bonds totaling $12,760,000 (Series 1997 Bonds). Bond proceeds, plus other legally available funds, were used to in-substance defease $10,105,000 of outstanding Auxiliary Facilities Revenue Bonds.

### C. ADDITION OF A NEW INSTITUTION

On July 1, 1997, Northeastern Junior College in Sterling Colorado was dissolved as a locally governed community college and became part of the state's community college system.

### D. PROPERTY DAMAGE

On July 28, 1997, because of heavy rains, the campus of Colorado State University in Fort Collins incurred extensive damage to several buildings on the campus. Numerous businesses located in Fort Collins were also damaged. The full extent of the damage is as yet unknown, but estimates range as high as $100 million for the university alone. The state does have property insurance but at this time the amount of insurance reimbursement is unknown.

### E. SALES TAX REFUND

On October 22, 1997, in special session, the General Assembly passed and the Governor signed a bill to provide a state sales tax credit of approximately $142 million on 1997 income tax returns filed before October 15, 1998. The purpose of this credit is to liquidate the $139 million TABOR Refund Liability booked by the state at June 30, 1997.

Each adult full-year resident filing a single return will receive a credit of $37 if their federal adjusted gross income (AGI) is less than or equal to $15,000, or $60 if their AGI is greater than $15,000 but less than or equal to $100,000, or $80 if their AGI is greater than $100,000.

For two individuals filing a joint return or a surviving spouse the credit is $74 if their aggregate AGI is less than or equal to $15,000, or $120 if their aggregate AGI is greater than $15,000 but less than or equal to $100,000, or $160 if their aggregate AGI is greater than $100,000.